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ABSTRACT

This two-volume textbook and collection of overhead transparency masters is intended for use in a course in setting up a small business. The following topics are covered in the first volume: getting off to a good start, doing market research, forecasting sales, financing a small business, understanding the different legal needs of different types of firms, getting a small business organized, advertising, developing and conducting effective publicity and public relations campaigns, and purchasing the correct supplies from the correct suppliers. The second volume includes units on the following topics: bookkeeping fundamentals, accounting, business policies, techniques of selling, insurance needs, self-improvement, personnel management, business plans and procedures for developing them, pitfalls and helpful hints, and techniques for staying on the road to success. Each of the individual units contains some or all of the following: an introduction to the chapter (including an outline of the topics to be covered); instructional text; sample questionnaires, forms, and exhibits; annotated lists of information sources; and a chapter summary. (MN)

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HOW TO SET UP YOUR OWN
SMALL BUSINESS

VOLUMES I-II AND OVERHEAD TRANSPARENCIES

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HOW TO SET UP YOUR OWN
SMALL BUSINESS

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VOL. I

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CONTENTS

HOW TO SET UP YOUR OWN SMALL BUSINESS

VOLUME I

Preface by Max Fallek i
Introduction ii
My Own Small Business - Getting off to a good start 1-1
Market Research - Ask the right questions 2-1
Sales Forecasting - A look into the future 3-1
Site Selection - Where to locate your busines 4-1
Financing - Financing your small business 5-1
Legal Needs - The law and you 6-1
Needs for a Small Business - Getting organized 7-1
Advertising - Spreading the word 8-1
Publicity and Public Relations - Making news for your business 9-1
Purchasing — The right supplies from the right suppliers 10-1

VOLUME II

Bookkeeping - The fundamentals of bookkeeping 11-1
Accounting - Accounting for success 12-1
Business Policies - Minding the store 13-1
Selling - Ring up sales through salesmanship 14-1
Insurance - Insuring the future 15-1
Self Improvement - Take inventory of yourself 16-1
Personnel Management 17-1
Business Plan - Developing your plan 18-1
Pitfalls and Helpful Hints 19-1
Wrap-Up - On the road to success! 20-1

PREFACE

It has been said that there are small businesses but no small business people.

The principles that make businesses grow and prosper are the same - small or large.

Some people jump into business with no previous experience. They have ideas and enthusiasm and no idea of the difficulties waiting ahead. Unfortunately the experience needed to make the business successful can be costly - and financially disastrous.

Getting involved in a new business, especially if you have no previous experience, can bring you face to face with a whole new world of complex problems. It need not be overwhelming if you are prepared.

The only intelligent way to go into a new business venture is with all the knowledge you can get and solid planning.

A careful reading of this book is a worthwhile first step in opening your business. It could save you heartaches and headaches and help protect your investment.

Nothing can replace personal experience but we believe the information we've put together can go a long way toward reducing uncertainty in the small business venture by giving you some ideas of what is to be expected.

It presents in clear and simple terms the basic principles of getting into, operating, and succeeding in small business. It contains specific, detailed financial and operating data for a wide variety of small business opportunities.

This book has been written by people who are actively involved in small businesses. They have faced all the problems you are likely to face as you enter this exciting world.

We hope that our experience and the solid, factual information contained in this volume will help you to make decisions that will lead to a better understanding of small business and help you achieve success in the business you choose.

INTRODUCTION

For most people earning a living means going to the office or factory five days a week - working for a salary. And that's just fine for most people. But no one is born to work for a salary. For increasing millions, earning a living means having businesses of their own - doing their own thing on their own terms.

Whether it's running a store, baking cakes for sale, building furniture, selling lawn care or providing any of hundreds of other kinds of products or services - operating a small business provides the kind of life that that has special appeals and rewards.

Most businesses are small businesses. In fact every business began as a small business. The ones that grow and succeed are built on the owner's ability to understand business problems and make good decisions.

What does it really take to start and run a successful small business? Experience, ability, money? In fact it takes a little of all these and lots of desire for independence.

Almost everyone has some experience that can be turned into a successful and thriving business. Many people who have 9 to 5 jobs have the capabilities to operate a small business.

Too often though, individuals start a business with experience in only one area of the total operation - as a salesman or a craftsman. But there are many other aspects of business that they'll have to understand and use if their efforts are going to be successful. A salesman turned business owner may get the orders, but without understanding production all those sales may turn out to be losing propositions.

There are no secrets for business success. But there are proved rules and procedures that have resulted in success for numerous small business proprietors.

Business ventures have to be planned. There are so many factors that affect the health of a business that it's necessary to plan ahead so that every element gets the attention it requires. It's easy to get so involved with day-to-day operations that you could miss the overall picture.

Every business must buy right, produce products or services right, and sell right in order to be successful. Any factors that affect the costs, the supplies or services your business buys can have a vital impact on your efforts.

Proper planning must consider not only the resources of the business, current operations and financial needs; but also the changes that can affect your situation in the future.

Goals may have to be revised from time to time to take advantage of opportunities or meet new conditions. All the more reason a business plan is necessary to set objectives to work against.

A plan helps organize such factors as production with sales, and both with advertising. A good plan also helps balance credit available with money needs. Even the smallest business needs the controls a business plan provides.

The small business person must be constantly aware of consumer, governmental, competition and business trends. The small business owner has to play many parts in a day. He or she must combine to some extent the roles of financial analyst, cost accountant, marketing, production and merchandising specialists.

You can hire these skills or you can learn to perform these tasks yourself.

That is the point of this book. It is designed to help you understand business operations, and to provide you with the techniques, skills, sources of data and detailed information needed to work your way to independent success.

Nobody said that running a small business is an easy task. There are plenty of problems. But for the individual who feels he or she has what it takes and is ready to work harder than ever before, the rewards can be great. And they can be more than financial.

The successful small business person will know the satisfaction of meeting a community need, and of supplying products and services desired by his customers. As for the bottom line, there's nothing like earning a profit, as well as a salary, for a job well done.

CHAPTER 1

Getting off to a good start

Build a bridge, then take it

This chapter is about getting you off on the right foot. It's about decisions that have been made up front **before** you actually get into the thick of running your business.

In this chapter you will learn:

1. Characteristics that make up the successful entrepreneur.
2. How to measure your own success potential.
3. How to arm yourself with the tools of success.
4. How to select the business that's right for **you**.
5. How and where to get the help you need to start and operate your own business.

You may have already selected the kind of business you want to go into. **We urge you to read this chapter anyway**. If you have gone through the selection process properly, this chapter will confirm in your mind that you're off to a good start. Knowing you're off to a good start, that you've done things right, will boost your confidence and help you succeed.

If you have **not** selected your business opportunity yet, this chapter will show you how to examine your thinking and weigh the many alternatives available to you. Better to pause now than plunge ahead in the wrong direction.

This chapter is probably the most important one in the manual, because it is concerned with getting you started in the right direction. Take your time. Do all the exercises and quizzes. This is one of your first giant steps on the road to success.

8

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NOW OR NEVER LAND
SUCCESS OR BUST

Fasten your seatbelts and hang on, because you're about to start on one of the most exciting journeys available in life. Your destination is a business of your own.

This great country called America is indeed the Land of Opportunity. Nowhere else in the world can you truly control your own destiny as you can if you're fortunate enough to be living in the United States.

There is a special brand of opportunist known as the Entrepreneur or, the Small Businessman. A dictionary definition of an entrepreneur is "one who manages, organizes and assumes the risk of a business or enterprise." The entrepreneur represents freedom: freedom from the boss, freedom from the time clock and -- with a lot of hard work and more than a little luck -- freedom from the bank.

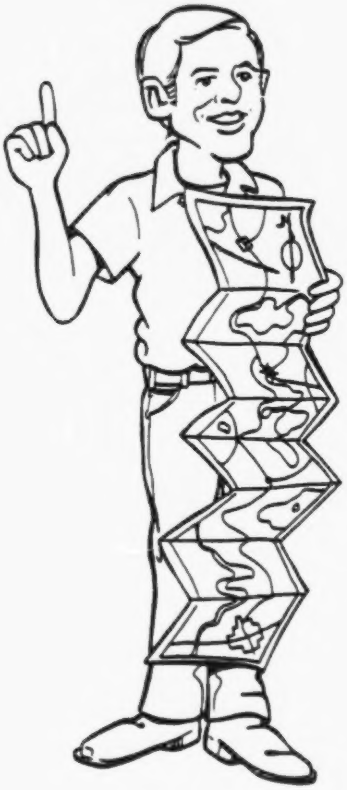
But if America is the land of the free and the home of the brave, too few of us are brave enough to venture out on the road to freedom. But those of us who **have** would never choose to go back.

The road to success in small business ownership is full of potholes, bumps, and pitfalls. But if you have the motivation and the will to succeed, you're off to a good start. This training program, written by fellow entrepreneurs **who have achieved success**, will give you the information you need to plot your own course for success. You'll understand how and why things happen ... and how to apply that knowledge to ANY business you choose.

PREPARING FOR THE JOURNEY

Most people spend more time planning a vacation than they do planning their lives. Many float aimlessly through life, taking its ups and downs as they come, getting by, living from day to day. If they become even moderately successful, or even comfortable, it's more by accident than by plan.

Achieving success in small business, however, is not a matter left to luck or chance. You may know of successful entrepreneurs who were "lucky" or "in the right place at the right time" -- but it's not something you can count on, nor will luck or good timing carry you through years of operating a business successfully.



You wouldn't think of starting out on a vacation trip without knowing where you're going, how you're going to get there, and having adequate money and provisions to see you through to your destination. In other words, you must **plan and prepare** for your journey.

That's what this chapter is all about. You select your destination; but we help you make the choices. You plot your own course, but we show you how to avoid the dead ends, the rough roads, and obstacles in your way. In short, we show you how to get there successfully.

PROFILE OF AN ENTREPRENEUR

American entrepreneurs number in the millions. Of the approximately 16,000,000 businesses in this country, more than 12,000,000 are operated as sole proprietorships -- in other words, "entrepreneurs in the business for themselves."

So who **are** these people we call entrepreneurs? While there are no absolutes, there are some general observations you can make about entrepreneurs:

1. **We love to make money**. With some, it's the things that money can buy. With others, money is just a way of measuring success.

2. **We have bigger dreams than other people**. We challenge ourselves to do more because we want more. More of the money, freedom and status that accompany entrepreneurship.

3. **We are very success oriented**. We have a need ... sometimes a burning desire ... to succeed. We need to prove ourselves to everyone who knows us, to our families, and to our toughest critics ... ourselves.

4. **We work harder than most people**. Some of us even think working eighteen hours a day is **fun**. We don't mind putting in extra effort when we get to reap the rewards. What we **don't** like is working hard so someone **else** can reap the rewards. Maybe that's why - as a group - we don't like working for other people.

5. **We are better at something than most people**. Some of us have great artistic talent; some are brilliant marketeers. Many of us have a natural gift for organizing; most are born leaders. We all have something extra that helps us succeed. And we're smart enough to make the most of it.

6. **We look at risks differently than most folks**. We understand the basic risk and reward ratio of life: the greater the risks, the greater the rewards. In other words, no guts, no glory. We can't win if we're not in the game. But it's not just rolling the dice. Our risks are almost always carefully calculated, and supported by confidence and belief in ourselves. We reduce the risk by knowing what we're doing.

7. **We are proud**. Proud of our abilities and our achievements. Our success proves to us that we are not average or mediocre. Success gives us great satisfaction -- and pride!

Joseph Mancuso, President of The Center for Entrepreneurial Management, in a recent survey, came up with the following additional common traits and profiles of successful entrepreneurs:

1. **One or both parents was self-employed.** The child who grows up in a home where at least one parent is self-employed is more likely to try his hand at his own business than children of salaried parents.

2. **They have been fired one or more times.** The entrepreneur's brashness and almost compulsive need to be right often leads to dismissal, usually by a superior who wants less conflict and/or less competition. But this need to be right often turns rejection into courage and courage into authority.

3. **They were in business at a young age.** Mowing lawns, shoveling snow, or peddling papers -- the enterprising adult first appears as the enterprising child.

4. **They are in their 30s.** The age range is down from the late 1950s and early 1960s, when it was found to be between 40 and 45. The younger generation seems to be doing almost everything sooner.

5. **They are usually the oldest children in a family.** Perhaps it has something to do with being a leader rather than a follower.

6. **The majority are married.** A spouse can be an asset by providing support, encouragement, and love. Also, bankers and venture capitalists look more favorably on entrepreneurs who are married because they regard it as a sign of stability and commitment. Fair or not, that's the way it is.

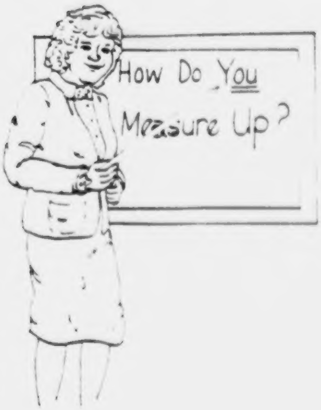
7. **Most have a bachelor's degree**, and the trend seems headed toward the M.B.A. Few entrepreneurs have the time or the patience to earn a doctorate.

8. **They are very sociable people**, and more often than not, charming as well. Which better equips them to charm the right banker or supplier and get what they want.

9. **They are super-organized.** Organizational methods and systems may differ, but you'll never find a successful entrepreneur without one.

10. **They are highly competitive.** Entrepreneurs tend to be participants, not observers; players, not fans. They like challenge, and they like to win. The greater the challenge, the more glorious the victory.

HOW DO YOU MEASURE UP?



After reading the profiles of entrepreneurs described above, how do you stack up against them? If you can say "Yes, that's me", then you're feeling pretty good right now. But if your profile is vastly different from the people we've described -- don't let it get you down. There is no absolute profile of the successful business owner, it only means that you may have to balance it with other strengths, or that you may need the help of others who have certain talents that you lack.

Many high achievers become entrepreneurs, but it is not a requirement by any means. Most people have a good amount of latent entrepreneurial instincts in them -- and most people want to make a lot of money, too. What you do with what you have will make the difference.

MOTIVATION -- THE FUEL THAT KEEPS YOU GOING

You may have just recently discovered that you have the clear-cut desires and ambitions to succeed as an independent business owner. But the personality trait or inspiration may well have begun when you were a child. That doesn't necessarily mean that you've wasted all the years in between. Everything seems to happen for a reason, and chances are you'll find a way to apply all the experiences and lessons of the past years.

What's important now is to recognize that, today, you have the motivation to start your own business and to succeed. Hang on to that determination that you're feeling now and use it to keep you going through the anxieties and tough times that may come your way. If you have a good reason for wanting the life of the entrepreneur today, it will be a good reason tomorrow, next week, next year, five years from now. It may be a time-worn cliche, but **the power of positive thinking really works!**

WHY PEOPLE GO INTO BUSINESS

You may have decided to start your own business after an external event triggered your latent entrepreneurial abilities. The event may have been a very positive occurrence, such as inheriting a family business from an uncle. Or, it could be a traumatic event, such as being fired. In either case, you should look upon what has happened as an opportunity. Seize it, and make the most of it. This may well be the most significant time in your life.

There are many reasons why people go into business for themselves. But they usually fall into one of two categories: concrete **practical** or abstract **personal**.

Some of the concrete, practical reasons include:

1. To make a living and/or get rich.
2. To prepare for retirement. That is "something to do" in retirement, or to provide additional income, or both.
3. For supplemental income and equity building, such as in real estate.
4. To use as a tax shelter or business write-off.
5. To have something to occupy spare time. (To relieve boredom.)
6. To create a common cause for the whole family, thereby building togetherness.

Some of the abstract, personal reasons include:

1. For emotional rewards; a realization of self worth self-image, seeing your creativity develop and expand.
2. To escape working for someone else.
3. To have flexible working hours -- the freedom to do what you please, when you please.
4. To stop having to take orders.

It's important that you go into business with your eyes open and not kid yourself. Emotional rewards are certainly worthwhile motives, but you should understand that they sometimes are a long time in coming. The emotional rewards are worth working toward, but don't expect them right away.

Working for yourself, instead of someone else, may be a welcome change for you. But be prepared to probably work a lot harder and work longer hours. In some businesses, it means doing what your employees don't get done, which often means nights and weekends.

Your working hours will certainly be more flexible, but don't count on taking a day off or flying off for a month's vacation any time you please, especially the first year or two. It's not unusual for new business owners to work 70-80 hour weeks, see their golf clubs collect dust in a corner, and postpone their vacation indefinitely.

If you never want to take orders again, then you'll need a business that doesn't involve serving customers. Because customers tell you what they want, and if they don't get it they don't do business with you. So be prepared to jump through hoops just to keep your customers happy so you can stay in business.

EXAMINE YOUR OWN MOTIVES

It's important that you examine your own motives for going into business. Identify them. Make your desires part of your goal plan. But be sure they're realistic. You want to avoid setting yourself up for a letdown early in the game. If you expect too much or expect something not easily attainable, you only run the risk of early discouragement.

* * *

Going into business is a lot like going into marriage. If you do it for the wrong reason, or with unreal expectations, you increase the chances that it won't survive. Marrying because of superficial physical attraction, or because it's "convenient," or because the bride is pregnant, practically guarantees failure.

Like marriage, a business needs a firm foundation, realistic expectations, and a total commitment in order to succeed.

WHY DO BUSINESSES FAIL?

Businesses, like marriages, fail for many different reasons. But generally, most of them are related to going into business **unprepared**. Or, put another way, usually a case of **not enough of something**. Not enough money, not enough skill, not enough experience -- or just plain not enough planning going in.

A recent survey of why businesses fail lists the following reasons:

- They start with too little money.
- Their industry or market is dying.
- They don't understand their customers' needs.
- They don't know their product.
- They merchandise poorly.
- They merchandise the wrong products.
- They're poorly managed (accounting and personnel are the most common trouble areas).
- Their inventory is out-of-date.
- They don't know their true costs of selling a particular product.

You have already taken perhaps one of the smartest steps to avoid all the problems people will warn you about: you have recognized the need for this manual, to teach you what you need to know. Together, we will build a well-thought out, carefully constructed plan for your business.

ACME
CLOSED
OUT OF

This manual will teach you:

- how to select the kind of business that's right for you
- how to select the right business opportunity
- how to conduct market research
- how to find the best location for your business
- how to hire, supervise and train people
- where and how to get the money you need
- how to advertise and merchandise properly
- how to select, control and track your inventory procedures

- what the basic management skills are and how to use them
- how to calculate your actual cost per product
- plus much more you probably already know but need to learn better

Businesses do fail, but there is no reason why you should fail if you know what you're doing. Success will come through knowledge, proper preparation, and perseverance.

If you want to see a future successful entrepreneur, look at yourself in the mirror. "Know thyself" --- and be honest about your true needs and desires. Unless you genuinely feel a deep motivation to go into business for yourself, you are better off doing something else .. but if you want the life of the successful business owner, we'll help you prepare so that you will not fail.

WHAT MAKES A SUCCESSFUL ENTREPRENEUR?

We members of the American Institute of Small Business have pooled all of our "formulas for success" and come up with what we call **THE 5 D's** that make an entrepreneur successful. The Five D's are:

- Desire
- Diligence
- Details
- Discipline
- Determination

Without these five qualities, the entrepreneur is not going to reach his full potential.

SELF SERVICE
5-D
5-D
P
DESIRE
DILIGENCE
DETAILS
DISCIPLINE
DETERMINATION
5-D

Desire is the carrot out in front of you. Desire is the vision that burns in the heart of the entrepreneur. If your desire is strong enough, it will point you toward success and provide the fuel to get you there.

Diligence is making the most of your opportunities and options. It's developing your strengths and overcoming any lack of skill, education, space, or money. You learn what you have to learn, do what you have to do, to get the job done. This takes diligence.

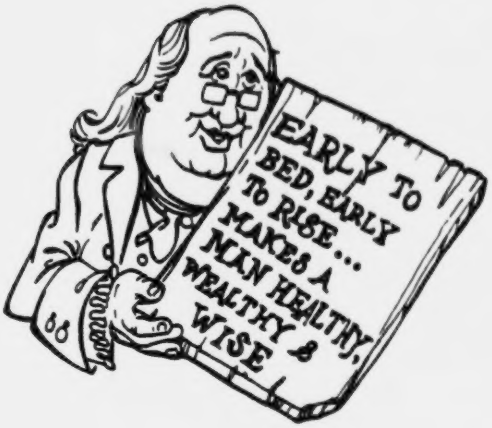
Details are the special skill of most entrepreneurs, who are usually supreme organizers. Some can do it with a simple "To Do" list on their desk. Others employ a battery of computers and word processors. Organizational systems may differ, but you'll never find a truly successful entrepreneur without one.

Discipline is the sister of detail because it's hard to have one without the other. One of the nation's most successful salesmen attributed his success to "doing the things that other salesmen don't want to do" -- in other words, doing things that are difficult, or uncomfortable, or that require some sacrifice. Your success will require that you discipline yourself to do the tasks you'll be tempted to put off or avoid altogether.

Determination is closely related to Desire and Diligence. But it's more than the two combined. Determination is what keeps you going when the going gets tough. Determination is a measure of your character. It's seeing your dreams through to completion.

The entrepreneur-in-motion is a joy to watch. He exploits the products and services he offers. He is unrelenting in his onslaught. He goes after the exposure he needs. He builds bridges between clients, suppliers, business contacts and other entrepreneurs.

The entrepreneur also trains himself for success by getting into everyday success-oriented habits:


EARLY TO BED, EARLY TO RISE... MAKES A MAN HEALTHY, WEALTHY & WISE

1. Get to bed early, get to work early, and keep yourself physically fit and mentally alert. Ben Franklin was right!
2. Manage your personal finances properly. Keep accurate checking and savings account balances.
3. Dress to do business. Keep a neat appearance -- you never know when you're going to meet a customer.
4. Keep your appointments and always be on time.
5. Call everyone you say you are going to call; keep other promises, too.
6. Strive to be happy in your work and friendly, fair and honest in your personal and business dealings. Running

your own business is a highly personal matter, and people will judge your business by how you conduct yourself.
7. Learn to love hard work and achieve your goals.

* * *

You learn these habits through practice; you go over them in your mind and imagine yourself becoming better and better. Whatever you do, work them into your system in such a way that they become second nature to you.

Making money is only part of the success formula. Feeling good about your business is part of it, too. At the beginning, that may be all you have. In the end, it is not enough to sustain you and your family, but if you believe you will succeed, you stand a good chance of making it happen.

WHICH PATH SHOULD YOU TAKE?

Making the all-important decision to "go into business for yourself" is only the beginning. Whether running a small operation in your own home - or managing a giant corporation - being in business involves constant decision-making. Right off the bat, there are decisions you must make just in getting started. And there are many paths. Getting you on the right path is what the rest of the chapter is all about.

WHAT BUSINESS IS RIGHT FOR YOU?

Selecting a business that's right for you really involves two questions:

1. What **kind** of business to choose?
2. What business **opportunity** to choose?

At first glance, these two questions may appear very similar. But they are quite different.

What kind of business means: What is the **nature** of your business? What goods or services will you offer? Where and how will your business operate? Small businesses typically fall into one of three types: personal services, retail merchandising, and light manufacturing. And no two businesses are the same -- each has its own requirements for capital investment.

What business opportunity is concerned with the **how** of getting into your particular business. Will you start from scratch? Or will you buy an existing business or franchise? Where and how will you get the money?

These are questions you don't answer by flipping a coin, or drawing them out of a hat. This chapter will show you how to arrive at the right answers, how to choose the right business, and the right opportunity. You'll see how to arrive at sound decisions logically and systematically, using a proven method of gathering and analyzing data. The techniques you'll learn will help you to continue making sound decisions in your business during the months and years ahead.

CHOOSING THE RIGHT BUSINESS

HARDWARE
FAST FOODS
COMPUTERS
ADVERTISING
RESTAURANTS

Choosing a business is one of the most important decisions of your life, yet many people do it by chance or coincidence. Some get lucky and succeed. Some even get rich. Those are the stories you hear about.

But for every "lucky break" success story, there are hundreds of disillusioned people who've gone broke, or sold out, or are still struggling just to make ends meet. Too often, these are people who started the wrong business, in the wrong neighborhood, at the wrong time, in the wrong way.

Too often, the eager entrepreneur chooses a particular kind of business that's right for someone else, but totally wrong for him.

For example, you may have a friend or relative who's making a bundle as an independent sales rep, and so you're tempted to give that a try. But unless you really enjoy meeting people, and enjoy selling, and don't mind travelling, your career as a sales rep would likely fail or be an unhappy struggle at best.

One day we were having lunch with a friend, Jim, and it was obvious he was wrestling with some problem. When we asked what the trouble was, Jim replied: "Oh, I've just had it up to here with working for somebody else. Tired of company politics, and being controlled and exploited by my boss, and waiting for an annual raise. I've got to get out on my own, start my own business, be my own boss."

When we asked Jim what type of business he was considering, he answered: "Well, I really haven't made up my mind yet. Maybe a pizza place ... or a McDonalds ... or maybe manufacturing of some kind, if I can raise the money. What do you think?"

We could have pointed out that Jim knows nothing about the food business or about manufacturing. But, instead, we thought of a business more suited to his background and interest. You see, Jim is an avid sports "nut." He was an all-around athlete in school and is still active in many sports. For three or four years he's been a volunteer coach in Little League Baseball and PeeWee Football. "How about a sporting goods store?" we suggested. Jim admitted he hadn't considered that idea, but said it sounded interesting. In a few minutes we had a list of about ten more types of businesses that might be right for Jim. We arrived at our list of possible businesses by discussing Jim's interests, his background and experience, and his skills. We also discussed his personal goals and the kind of life style he envisioned for himself. And whenever we came up with an idea that Jim shrugged off with obvious lack of interest, we immediately discarded it. Our "top ten" were all ideas that Jim could consider with **enthusiasm**.

It's extremely important to select a business that satisfies your personal goals, that suits your life style, that involves the kind of work you **like** to do and are good at doing. If you enjoy and find fulfillment in your work, you are much more likely to do an outstanding job. And if you do an outstanding job, you are much more likely to succeed.

Up to now this chapter has dealt mainly with personal qualities and traits, motives, success formulas, and good habits. Consciously or unconsciously, you've been "taking inventory" of your own personal qualities, motives, and mental attitude. You've been sizing yourself up as to whether or not you have what it takes to go into business. We'll assume the answer is definitely "yes."

Now we want you to get down to the nitty gritty about "who you are" in a different kind of self inventory. We're going to select the business **that's right for you** based upon who you are and what you are. Our objective is to come up with businesses you're likely to succeed at, and rule out those in which you'd be more likely to fail.

Using the questionnaire below, prepare your own "resume" of experience, hobbies, interests and acquired skills. In a way, you're "hiring yourself" for a career job. So take care that you don't lie to yourself or exaggerate the truth. Be honest and objective.

What skills do you have?
What experience have you acquired that could be applied to your own business?
What are your three most satisfying accomplishments?
What are your hobbies and interests?
What knowledge/expertise have you acquired from schools, seminars, and special training?

Armed with the information from your "resume" -- the chapter questionnaire you've completed -- assess your strengths, your skills, your acquired knowledge and your **interest**. It should be fairly evident what you can bring to your new business and where your interests lie. Keep this inventory handy, for it will be an important tool in selecting your business.

WHAT DO YOU WANT FROM THE BUSINESS?

It's important to know what you can give to the business. It's equally important to know what you expect the business to give you. You may be thinking, "That's easy. I want independence, wealth, and status." But which of the three is most important to you? How important is personal satisfaction? How about creative expression? And how about the impact your business may have on your family? These considerations, and more, are all important when selecting a business that's right for you.

You'll want to look at both business goals and personal goals. You may find a business goal contradicts a personal goal, and you'll have to make a choice between them, or at least modify one or both. For example, you may list "spend more time with my family" as a personal goal and "build a national franchise operation" as a business goal. Chances are, your business goal of developing your operation nationwide will involve considerable travel. Thus, you would likely be spending less time at home, not more. So you may decide, instead, to develop a local business close to home and perhaps even choose one that gets the family involved in its operations.

* * *

WHAT ARE THE BUSINESS POSSIBILITIES?

Now it's time to go shopping. First, we need a shopping list. What are the **kinds** of businesses you might consider? Now, we don't want you to start **evaluating** the possibilities yet, except in a very general way. What we want you to do is come up with a **long** list of businesses you could **possibly** consider, eliminating only those that are obviously not for you. In other words, rule out the ones that: (a) demand obvious talents or qualifications you don't have; or, (b) ones you would definitely **not** enjoy being associated with.

YELLOW PAGES
FRANCHISE OPPORTUNITIES
SBA BUSINESS MONTHLY
INVESTMENT TODAY
OPPORTUNITY MARKETPLACE

Where do you look for types of possible business candidates? Here are some of the places you might look:

1. Your telephone yellow pages.
2. Your own neighborhood business community or shopping center.
3. Your SBA business library.
4. Your public library. Consult Thomas Register, and other business directories. Also, a directory of FRANCHISE OPERATIONS available may give you some ideas. But remember, you're just looking for **kinds** of businesses at this point, not specific business opportunities.
5. Entrepreneurial magazines, such as "Income Opportunities," "Entrepreneur," "Spare Time," "Success," "Money" and similar tabloid and newsletter publications.

6. Friends, associates, neighbors, relatives. What businesses are they in?
7. Inside yourself. You may have an original idea for a business that no one has thought of, or for a product that doesn't exist. But don't limit your thinking only to this new business or product. You want to see how your idea "stacks up" against other possible businesses.

* * *

THE CRITERIA RATING SYSTEM

Ever notice how Consumer Reports goes about rating a product? If you've never seen this magazine, it would be worth your while to pick one up. Notice they don't come right out and say a product is excellent, good, fair, or poor and expect you to take their word for it. Instead, they take a systematic approach to rating products by considering certain criteria they feel are important to consumers. They then compare products to each other based on the selected criteria, and allow readers to make evaluations of their own. Readers can select their own creiteria - the things most important to them -- and select one product over another accordingly. In other words, Consumer Report researchers recognize that you may give different value points to one feature or another **based on what's important to you.**

We're recommending that you follow a similar process in selecting the kind of business that's right for you, and apply the process again later in selecting the **specific** business opportunity for you.

GIVING VALUE POINTS TO YOUR CRITERIA

You already have a summary of the things you're looking for in a business; your personal goals, and your business goals. Now we want you to rate these goals in order of importance and assign a point value to them.

Use the following procedure:

1. Reduce your list of personal goals to six or less, and list them in order of priority.
2. Do the same with your business goals.

24

3. Divide your lists in half and assign a rating scale to the upper half that is twice the range of the scale applied to the lower half.

For example: Items 1-3, (upper) rate on a scale of 1-6.
Items 4-6, (lower) rate on a scale of 1-3.

Thus, a number three priority item given a "four" (on a scale of one to six) would outweigh a number four priority item given a "three" (on a scale of one to three). (See example illustration)

Personal Goals:	Rating
1. Use my creative talent	(1-6)
2. Use my past experience	(1-6)
3. Enjoy my work	(1-6)
4. Meet people	(1-3)
5. Spend more time with family	(1-3)
6. Get more exercise	(1-3)
Business Goals:	
1. Limited investment needed	(1-6)
2. Good growth potential	(1-6)
3. Non-seasonal business	(1-6)
4. Total independence of management	(1-3)
5. Minimum government regulation	(1-3)
6. Local outreach	(1-3)

Using this rating method, higher priority items will usually count for more than lower priority items, unless the latter are outstanding. You will better appreciate the importance of this distinction when you work out your rating chart and add up the scores.

* * *

MAKING YOUR OWN RATING CHART

Following the example in the illustration below, make your own rating chart using the following procedure:

1. In the left column, list the business possibilities you've come up with. There's no limit to the number -- list as many as you might consider. They can be listed in any order. Don't try to prioritize them.
2. Make vertical columns to the right of your list of businesses, one for each of your personal and business goals. (Maximum of twelve columns.)
3. List your personal and business goals across the top, along with their assigned scale. (one to six or one to three.)
4. Evaluate each of the businesses you've listed according to the criteria you've listed across the chart, rating "how they measure up" on a scale of either 1-3 or 1-6. Enter the score in the appropriate box to the right of each business.
5. Add up the points from left to right horizontally after each business listing. Enter the total score in the far right column.
6. Narrow your possible business candidates down to the "top five" -- the five that scored the highest.

SAMPLE CHART OF GOALS & RATING SCALES

	PERSONAL GOALS						BUSINESS GOALS						
	#1 (1-6)	#2 (1-6)	#3 (1-6)	#4 (1-3)	#5 (1-3)	#6 (1-3)	#1 (1-6)	#2 (1-6)	#3 (1-6)	#4 (1-3)	#5 (1-3)	#6 (1-3)	TOTAL SCORE
BUSINESS A	5	4	2	3	1	2	6	5	5	3	1	2	39
BUSINESS B	6	5	2	2	3	1	5	4	6	2	3	2	40
BUSINESS C	2	4	5	2	2	1	3	4	4	2	1	2	32
BUSINESS D	6	6	5	3	3	2	5	6	3	3	2	2	46
BUSINESS E	3	2	2	2	1	1	4	3	2	2	0	1	23
BUSINESS F	4	3	4	2	3	1	4	5	2	2	1	1	32
BUSINESS G	5	6	5	3	3	2	6	5	6	3	2	2	48

In the rating chart above, the top five business candidates are G(48), D and J (46), B(40) and A(39).

How did your selections come out? Did you have some surprises? Did you eliminate some that you considered "favorites?" If you did, take a good look at your list of goals again and the way you prioritized them. Maybe you left some important goals off your list. Or maybe you underestimated the importance of some. If you end up changing your list, or their order of priority, you'll have to go through the rating procedure all over again. It's worth doing until you feel your rating system is accurate, objective, and "feels right."

One associate of ours applies this rating system to selecting his Little League baseball team each year at spring tryouts. Another associate has used this method to select a house. But both confide that, in the end, they also listen to their "gut feeling" in addition to the cold, hard facts. There's something mysteriously powerful about our intuition sometimes.

* * *

MAKING THE FINAL SELECTION

You may not end up going with the kind of business that scored the highest. You may select number four or five on your list. The rating method is not totally conclusive. But what you have done is eliminated those businesses that only stand a remote chance of being "right" for you when considering your priorities. Now that you have narrowed the possibilities down to five good candidates, you can go about the selection process in more depth. Here's the procedure we recommend in making your final selection:

1. **Talk to people in the same or similar business.** Seek out people who are operating businesses like or similar to the ones you're considering. They will not object to talking to you, providing you won't be in direct competition with them. Select people outside of the area in which you are considering locating your business. Be frank and honest with them. Let them know you're considering a business similar to theirs and you would value their advice. Usually, these contacts will be flattered and willing to share their experience and advice. Meeting at their place of business is best, unless your presence will inhibit their operation or the activity would not allow for a relaxed conversation. You may want to consider meeting the business owner for lunch or for coffee or dinner after hours.

2. **Check success and failure reports.** Articles are written each year on small businesses, and most of them list the ones most likely to succeed and those most likely to fail, based on recent data. These articles are usually available at your public library. If you know of businesses like the ones you're considering that have failed, try to contact former officers or employees of the company and inquire why it failed.

3. **Ask professional advice.** There are four professionals you should get to know if you are to succeed, and you might as well start now. The professionals are: Lawyer, Certified Public Accountant (CPA), Marketing Consultant, and Banker. These people work with business owners every day, and have a good knowledge of the ins and outs of most of them. Share your thoughts with them. Tell them what businesses you're considering and why. They will likely point out factors you haven't thought about or share with you specific knowledge about the particular businesses. You'll want to consult these same poeple later when you come to select your specific business opportunity.

4. **Share your thoughts with your family, friends, and associates.** Your family members, friends and associates may point out some considerations you never thought about. They may come up with significant thoughts that would discourage you from one idea, or, they may offer real encouragement for pursuing another idea. An added benefit is the comfort you feel in getting others who are close to you involved in your big decision.

5. **Make the final decision yourself.** If you've followed all the steps we've recommended faithfully, carefully, and thoroughly investigated the "top five", you've done all that could be expected of you. You have given yourself the benefit of ample data, advice, and knowledge from which to make your decision. The rest is up to you. You're on your own. If, for a specific business type, you can answer yes to all three of the following questions, you're ready to make a commitment:

1. Does the business satisfy most of my wants and desires? (That is, business selection criteria.)
2. Do I have, or can I develop (or hire), the attributes and capabilities that are required for success in this business?
3. Is the current condition and outlook for this type of business favorable?

If you can answer yes to all three questions, you're in great shape. But what if the best you can do is two out of three and one "maybe?" Or, what if all five rate the same? What then? At this point, it boils down to going with your "gut feeling." Remember, there probably is no perfect business. None will suit you exactly; you're going to make some compromises. But if the choice is between remaining a frustrated and unhappy employee, or making a few compromises so you can be in your own business, then we think you'll be much happier in the long run if you make the compromises.

When you've made your commitment, you're halfway home. You've finished Step One of the business selection process. Congratulations! Now you can go on to Step Two: Selecting your Specific Business Opportunity.

SELECTING YOUR SPECIFIC BUSINESS OPPORTUNITY

You've selected the **kind** of business you want to go into. That is, you know what product or service you want to market. But now what?

Basically, you have three options:

1. You can buy a franchise business.
2. You can buy an existing business
3. You can start your own business from scratch.

Each is a different kind of venture. Each has its own advantages and disadvantages, its own risks and rewards, and its own financial requirements.

WHERE TO LOOK FOR BUSINESS OPPORTUNITIES

FRANCHISEBURG
ONGOINGTON
SCRATCHVILLE

Whether looking for independent ongoing businesses or for new franchise opportunities, you need to know **where** to look. Generally, there are three main places to look for a new business opportunity.

1. **Business Professionals.** Your bank is a good place to start. Your **banker** deals with

people in business every day and would be one of the first to know if an owner is considering selling his business. Your **lawyer**, if he is a business lawyer, would also know of business opportunities and would be in a position to advise you on which ones are worth considering. Other good contacts include investment brokers, marketing consultants, and other entrepreneurs.

2. **Directories**. Your **public library** can provide you with a current catalog of franchise opportunities. These catalogs are published each year, and include descriptions of the franchises, the approximate investment dollars required, and how to get in contact with the franchiser. (Your local **SBA Office** also has an extensive library of directories, as well as dozens of various business brochures and pamphlets that provide excellent reference for the new business entrepreneur.)

3. **Newspapers and Magazines.** Your local newspaper is a good place to start. Check the classified section under "Business Opportunities" as well as the display ads, which may be found either in the classified section or in the business news section.

Other publications include:

- "Wall Street Journal"
- "Entrepreneur"
- "Income Opportunities"
- Money Making Opportunities
- "Spare Time"
- "Opportunity"
- "Popular Mechanics"
- "Selling Direct"
- "Mechanics Illustrated"
- "Money"
- "Success"
- "Ladies Home Journal"
- "Work Bench"
- "Work Basket"
- Farm Publications

Of course, we haven't listed all the magazines where you'll find opportunities. There are many others, and new ones seem to show up all the time. If you're considering a very selective market or business, check the trade magazines that reach that market. For example, if you're thinking of raising horses, or training horses, there are a number of magazines that appeal specifically to horse lovers, horse ranchers, horse trainers, and so on.

There are also various business opportunity and entrepreneurial conventions, shows and expositions. These are excellent places to make business contacts and talk to other entrepreneurs. Inquire with your SBA Office as to when the next ones are scheduled.

BUYING A FRANCHISE BUSINESS

The great attraction of entering business through a franchise is that all the planning comes prepackaged for you, often at a price far lower than if you were to start fresh. Thus, you avoid the problem of raising large sums of money -- often the most difficult part of establishing a business.

Another plus is that you receive the right to operate a business under the leadership of a well-known distributor or manufacturer. In return for a fee and royalty payments, you have immediate access to a proven product, a consumer image, publicity, and goodwill. In many cases, the franchisor provides the goods -- whether they are automobiles or fried chicken -- as well as the training and techniques for conducting the operation. If the franchise is a sound one, the likelihood of success in your own business is increased. The security and know-how offered by the franchising company, along with the name-brand recognition, lowers the risk of failure for you.

There are, however, disadvantages to franchises: you have to conform to the chain's standards, sell only their product at their price, share in the problems of the distributor (though they may be none of your doing), perhaps find that centralized management is unresponsive to your needs, and of course, share the profits.

If freedom and independence is high on your list of priorities, you would probably not be content to operate a franchise. In fact, most franchising companies don't want independent types. One Franchising company representative said something like: "We're not looking for generals who want to do everything their own way, we're looking for sergeants."

When considering a franchise your first concern is assessing the success, reputation, and image of the franchising company. You'll want to know, for example:

1. What is the reputation of the franchisor? Has it changed (better or worse) recently?
2. How successful have the franchisees been? Would they do it again if given another chance?
3. What do competitors think about the reputation and success of the franchisor being evaluated?
4. How well does the franchisor rate with financial reporting services, banks, and community agencies?

If you are considering buying a franchise, you should visit other franchisees, the Better Business Bureau, and the Chamber of Commerce to investigate the company's reputation and track record. Before you sign any contract you should consult your lawyer, since your agreement will regulate such key items as exclusivity, inventory, royalty rates, purchase requirements, and investment obligations.

There are two publications which list most of the franchises which are available:

A. Franchise Opportunity Handbook Number 003-008-00191-2 Published by Department of Commerce. Cost: $7.00

Government Printing Office, Supt of Documents
Washington, D.C. 20402 1983 edition

B. Info Press located at 736 Center Street, Lewiston, New York 14092

This is a private publishing Company which publishes the Franchise Annual. The cost is under $15.00.

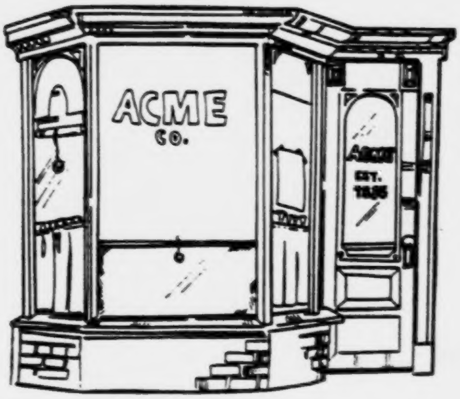
BUYING AN EXISTING BUSINESS

In buying an ongoing concern you have some of the same advantages as a franchise:

- an active and loyal clientele
- a known product or service
- goodwill
- all the past efforts which went into making the business successful.

In addition, when you buy an ongoing business, you get:

- brick and mortar (an established building and location)
- employees who already know the business
- inventory and supplies
- tax and credit history



Often when you buy a business you are getting more than the "book" value. For example, if you were to start a restaurant from scratch, it may cost you $100,000 for leasehold improvements such as ovens, dishes, and so on. But often a business is sold at below book value--so you pick up all the leasehold improvements at a considerable savings. That's why many second or third generation restaurants survive when previous owners have gone belly up.

On the other hand, if you buy a successful ongoing business, you should be prepared to pay the owner a premium for the intangible efforts that go into building a thriving business. That is, its following, customers, trade relations, management efficiency, public acceptance--in short, goodwill.

One of the disadvantages of buying an existing business is the problem of not knowing exactly what you're buying. Why is the present owner selling? Are there some hidden problems?

When considering buying an ongoing business, you'll want to know the answers to such questions as:

1. Are there any changes in the nature of the business or in the character of the neighborhood?
2. What is the extent of the company's liabilities?
3. What promises or contracts has the company entered into that might commit the new owner in the future?
4. Are there any potential lawsuits coming against the company? (For example, for defective products or injury liability.)

We urge you to proceed very cautiously when considering buying an existing business. Just as when you shop for a used car or a home, it pays to check out what you're buying **thoroughly** before you put your money down and sign on the dotted line. Again, your best friends can be your attorney, your CPA, your banker, your marketing consultant and reference agencies such as the Better Business Bureau and Dun and Bradstreet. Use them to investigate the company's reputation and track record. In addition, try to talk to key employees of the seller's company and also ex-employees. You may uncover facts or factors the seller has been reluctant to talk about.

The danger of hidden liabilities when buying an established business is a strong reason for starting out fresh with your own business.

STARTING YOUR OWN BUSINESS FROM SCRATCH

Starting fresh with a new business certainly permits you the most freedom, since you are not restricted by what has gone before and are not regulated by someone else's rules.

When you start from scratch, you have a clean history, a clean inventory, and the excitement of something new. You get to choose the name of the company, its location, its employees, all the equipment and furnishings. You can, in fact, define its entire personality. If successful, you have one of the biggest rewards of all: the satisfaction of knowing you did it all yourself, from the ground up.

In many cases, starting fresh is your lowest-cost approach of getting into business. This is especially true if your particular type of business lends itself to a small-scale, spare-time start-up. It's possible that you can get started with just a few thousand dollars from your savings or with a small loan from members of your family.

On the other hand, you may be considering the type of business that will require a great deal of money to get started. In this case, the success of your enterprise may rest upon your ability to raise the money. Raising the money may be the most difficult job you have ever faced. However, the process can be made easier by following the guidelines presented in Chapter 5, "Financing Your Small Business."

No two businesses are the same--each has its own requirements for capital investment. But generally, they are usually either "capital intensive" or "labor intensive."

Businesses requiring a great deal of money to start up are called "capital intensive." A printing house with modern presses, a trucking company with long-haul tractors and trailers, and a machine shop with numerically controlled equipment are all examples of companies that rely on large amounts of invested capital to purchase or lease equipment, which does most of the work.

Businesses that rely more on **people** than on equipment are "labor intensive." Artists, writers, and consultants, for example, establish their businesses on their talents, techniques and knowledge. Although this type of business requires the least amount of capital to get started, it's often difficult to get a loan (if needed to finance it) simply because you have no fixed assets (inventory, equipment, a building) for the bank to consider as collateral. Also, the independent, skilled professional is often in a business that banks find vague and hard to judge for success potential. In such a business, your Business Plan (see Chapter 18) is often the key to convincing your lender that your business has promise for profitability.

Of course, few businesses are completely "capital intensive" or "labor intensive." For example, retail stores, manufacturing assembly lines, and restaurants all need equipment **and** people. Knowing the relative importance of each--labor and equipment--for the business you wish to start will help you determine the amount of money you'll need to start. Then you'll be in a better position to decide how feasible your plan is. If your prospects of raising the needed capital are rather limited, and the new business will not be generating cash quickly, it would be prudent to find an operation which either needs less money or has an immediate inflow of cash.

There are other considerations when you start a business from scratch. They will be covered in detail in later chapters, but you should be aware that the considerations include:

1. Determining both **fixed** and **variable** costs.
2. Projecting start-up costs.
3. Projecting profit and loss for the first year.
4. Projecting cash flow.
5. Projecting year-end net worth (assets minus liabilities).
6. Deciding on the legal form of your organization: Sole Proprietor, Partnership, or Corporation.
7. Where to locate your business.

As you can see, the list above is essentially the reverse of buying an ongoing business, where the advantages include having all or most of those elements in place when you buy it. At first glance, the list of considerations may scare you--but keep in mind that you'll **know how** to deal with those challenges after you've completed this manual. So if your heart really lies in starting your own business from scratch, pursue that idea with the confidence that we're going to teach you exactly how to do it. And we will teach you one step at a time so that you will be the master of that step after you learned it yourself.

MARKET RESEARCH

Before starting your own business from scratch, or buying an existing business, you'll want to do a thorough market analysis. In a new product or new business, you'll need to study the market potential--in other words, determine the extent of need for your product or service. If you're buying an existing business, you'll need to investigate product quality, price competitiveness, delivery and service reputation, and the image the company has with its current and past customers.

Large corporations usually employ a full staff of marketing people, or, they hire an outside marketing firm or consultant, when launching a new product, starting a new business, or acquiring an existing business. In the next chapter, we will introduce you to the methods big companies use in doing market research, and show you how to adopt similar techniques for your own business venture.

ANALYZING YOUR START UP OPPORTUNITIES

Even after thorough investigation of selected business opportunities, using the expert help of your lawyer, banker, and marketing consultant, you may come up with several "good" possible opportunities in your chosen product/business area. How do you decide which one is best for you? We recommend you go right to your list of business goals and personal goals and see which business opportunity satisfies your priorities best. Use the same kind of chart analysis you used to select the **kind** of business that's right for you. List the possibilities, rate them according to your priorities, and add up the scores. (But don't forget to listen to your "gut feelings" too.)

* * *

THE DECISION IS YOURS

In this chapter you have learned how to build a firm foundation for your business venture, how to select the kind of business that's right for you, and the options available to you in business opportunities. There is no single right way of getting into business. Buying an ongoing business is right for some people in some situations. Starting from scratch is right for other people in other situations. We've pointed out the different options you have and **how to go about** selecting what's right for you. But the final decision is yours. The important lesson here is that you take a careful, logical, systematic approach to making your decision, giving yourself the benefit of as much information as you can gather. With the proper information, self-analysis, and the principles you'll learn in this manual, we are confident that you will succeed if you have the desire to succeed.

CHAPTER 2

Ask the right questions

Everything depends on it

Several years ago, two Japanese car manufacturers, Toyota and Datsun, decided to survey American car owners on both their likes and dislikes about the automobiles they were driving.

The American owners' major complaint was that their cars were not "energy efficient". In other words, they felt they were not getting as many miles to the gallon as they would have liked.

The Japanese quickly realized that if they introduced their energy efficient cars into the American market, the cars would sell.

At the time of this research, the energy crisis had tripled the price which consumers were paying at the pumps. The Japanese brought their energy efficient cars to America and took advantage of the tremendous sales demand for them. These two cars are still very popular with consumers.

Another company, a leading food producer of margarine, conducted its market research for a different reason. In 1981 and 1982, one of its leading products, a special blend of margarine, enjoyed a sixty percent market share.

Then in October 1982, two competitors entered the market and the company immediately noticed a sharp decline in market

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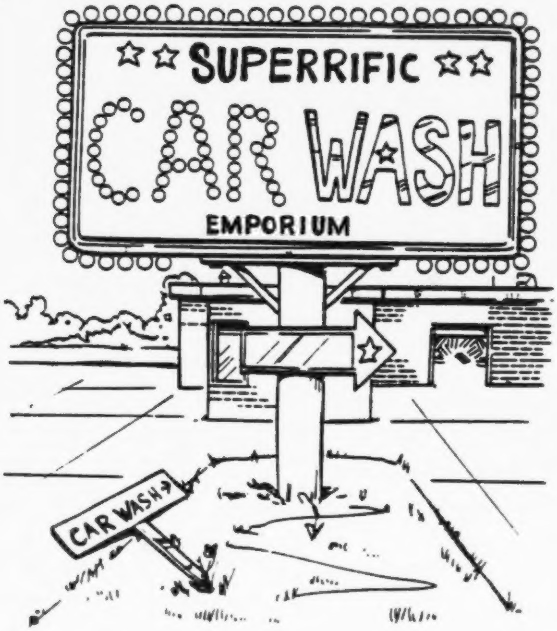
share. Sales continued to decline in early 1983. To find out what the problem was, they did a consumer market research survey. It showed that the two competitors introduced their margarine blend with much stronger packaging which had far greater eye appeal.

As a direct result of these findings, the margarine producer redesigned its packaging and immediately began to recover some of its lost market share.

In both these examples, market research helped two big corporations make important decisions about their products. You've seen hundreds of examples of market research at work including the current "taste tests" of soft drinks, beer, cake mixes and peanut butter. All these manufacturers realize, as you do, that it is the public who ultimately decides the fate of their companies.

But market research is by no means limited to big business. Indeed, smaller companies usually have more to gain from finding out what consumers want.



For example, a local car wash business felt that they weren't getting enough mileage out of their advertising dollars. The owner was spending his advertising budget on newspaper, direct mailing, and yellow pages advertising. Although the business was profitable, the owner felt it could be doing better.

He decided to set aside an entire week to conduct a market research survey and during that time, he asked every one of his customers how they had heard about his car wash. Much to his surprise, he found that the majority of customers had either seen his sign outside the car wash or received one of his advertising flyers in the mail. Only 5% of his customers had come to the car wash as a result of seeing advertising in either the newspaper or the yellow pages.

Since the owner was spending 80% of his advertising dollars on newspaper advertising, he quickly switched his concentration of advertising to direct mail and built a larger sign outside his car wash. Not surprisingly, his business doubled over the next year.

Likewise, the owner of a small restaurant specializing in authentic Italian food, decided to conduct an informal survey on his business. His advertising campaign emphasized the restaurant as a good "American family" restaurant. The owner polled his customers and found that over 90% of them patronized the restaurant because of the excellent Italian food. When he switched his advertising campaign to highlight the good "Italian" food, his business tripled.

In both cases, a market research survey brought direct, positive results in the form of increased sales and profits. Such a survey can help you in the same way. Market research may not always tell you what you should do, but it **should** always tell you what you **should not** do.

In this chapter you will learn:

- What is market research?
- How can you use market research **before** you go into business?
- What are the ways of conducting market research?
- How do you prepare a questionnaire?
- How do you interpret and use the results of the survey?
- What are some sources of information for market research?

WHAT IS MARKET RESEARCH?

Market Research is, very simply, a way to get particular information from certain consumers and available resources.

Market Research tells you about the market and its preferences, opinions, habits, trends and plans. It also tells where the market is, its geography, its demographics (statistical characteristics) and information about the psychology of the market and the marketplace. The information you get from such research can help you make very important decisions affecting your business.

It is essential for a small business to have accurate, current consumer information. A small business owner does not usually have large amounts of money to gamble on making a wrong move or wrong decisions regarding his business. For example, when Nabisco decided to introduce Oreo Cookie ice cream to the public, they chose three cities in which to test market their product.

Whether or not the ice cream made it to the national market depended on the public reaction from those three cities. This method of testing the market is probably the best way to determine if there is a public demand for products and services.

Unfortunately, a small business simply cannot afford to make a large investment in something that might not work. Of course, you want your business to be a success; but how can that be guaranteed? Well, it can't be. But using a market research survey can reduce some of the risks which you'll take.

One of the greatest thrills for the entrepreneur is to learn something new about his market that gives him a competitive edge. Imagine what you will be able to do if you can discover an unmet need in the marketplace -- why, you could be the only one with the missing product or service, which means you can have ALL of the market share.

So -- in the process of learning about your market through your research, you will be able to attach definite numbers to your plans and verify your marketing strategy. And, if you're lucky, you will even be able to uncover unfilled needs that you can take advantage of!

Market research can be done by anyone who is able to ask questions, is able to record the information, and takes the time to learn what it says. It can be done by you or someone you hire. And there are several ways you can accomplish this. If you are about to go into business, here are some things you might want to know:

- What are the long-term trends that will affect my business?
- Where should I locate my business?
- How much business can I expect if I open at a certain location?
- Will people purchase my products and/or services?
- Who are my competitors?
- What products and/or services do they offer?
- What is their sales volume?

- Who are my customers?
- What types of products and/or services do my customers want?
- What types of products and/or services do they not want?
- What type of advertising will attract my customers?
- Should I sell name-brand or off-brand products?

If you are already in business, use the information you have before you go anywhere. You have a gold mine of information at your fingertips that is unavailable to the person not yet in business -- your own business records. If you record your customers' addresses on sales receipts or credit applications, you will be able to get a sense of what your market area is. Where do your customers come from? Your customers' phone numbers will provide you with the same information -- just check with the phone company to find out the areas of your community to which the prefixes (the first three digits) are assigned. Take a local map and mark an X everywhere you have a customer; then look at where they are concentrated. Is there a pattern? If there is, you may be able to concentrate your advertising dollars in that area.

In some states, car license plate numbers are assigned by county. Send an employee out to your parking lot once in the morning, afternoon and evening to take a tally. In a couple of weeks, you will have a rough idea of how many of your customers live outside your county area.

After you are in business -- even for a short time -- your own employees will be an excellent source of information about customer characteristics and attitudes. Ask them to talk more with the customers they are serving over a one- or two-week period. What can they tell about their occupations, interests, and buying habits from some first-hand observation? You both may be surprised! Ask them to pay attention to what customers request that you don't have in stock. Have them ask if they've tried anywhere else. Your employees will also know at what times of day you're the busiest, and what type of customers you're getting at those peak times.

If you are an established business, your market research will have a slightly different slant. Here are some examples:

- To whom is my advertising directed and is it reaching them?
- Is there a change in my customers' spending habits?
- Have my competitors made any recent changes?
- What services should I offer my customers?
- Should I be offering more than I offer now?
- What hours should I be open?
- What changes have taken place in the market?

These are just a few examples of the questions you might want to ask. Of course, you can easily alter the list to meet your individual needs.

How Do You Conduct Market Research?

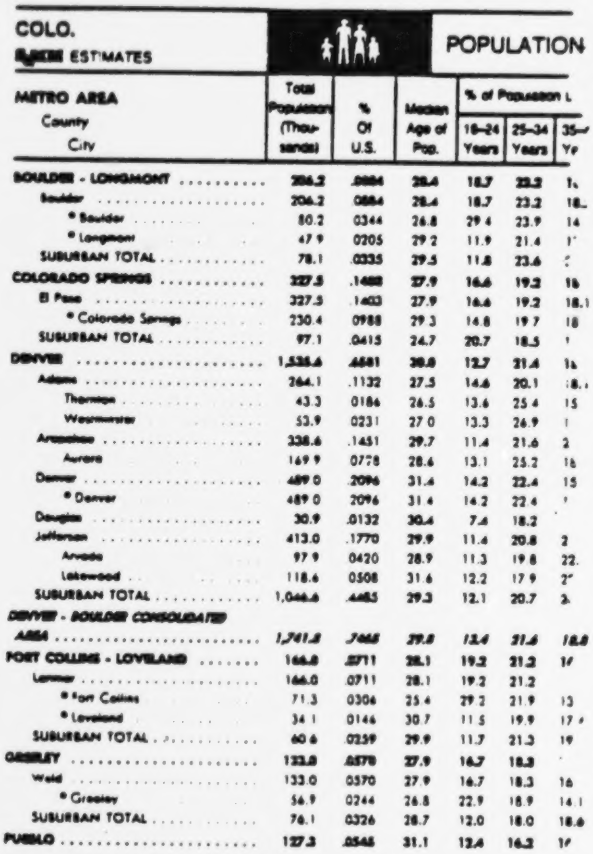
Since Market Research is primarily the gathering of information about your market, there are any number of resources and places of information to help you. These include:

A. **The public library.** A trip to your public library is the best place to start. Come armed with a list of materials and head straight for the reference librarian. They're more than willing to help! Here are some of the resource materials available in your library.

1. **Magazines and Reports:** Look in the **Directory of Associations** to find what trade associations there are for the type of business you are in. This reference book will give the address and phone number of the association and a list of their publications. These association publications are a good source of information about all aspects of your business. Your library may have them or can find out how to get them for you.

2. **Sales and Marketing Management Magazine** publishes an annual "survey of buying power" issue. It is a source for a gold mine of information on every county in the U.S. and cities over 10,000 in population. It provides the following information:

   - o Total population.
   - o Number of households: more crucial for many businesses than total population because products are bought to serve a household.
   - o Median cash income per household: tells you how affluent a city or county is compared to its neighbors.



COLO.
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POPULATION

METRO AREA County City	Total Population (Thousands)	% Of U.S.	Median Age of Pop.	% of Population		
				18-24 Years	25-34 Years	35-
BOULDER - LONGMONT	206.2	.0884	28.4	18.7	23.2	1
Boulder	206.2	.0884	28.4	18.7	23.2	18.
• Boulder	80.2	.0344	26.8	29.4	23.9	14
• Longmont	47.9	.0205	29.2	11.9	21.4	1
SUBURBAN TOTAL	78.1	.0335	29.5	11.8	23.6	
COLORADO SPRINGS	327.5	.1403	27.9	16.6	19.2	1
El Paso	327.5	.1403	27.9	16.6	19.2	18.1
• Colorado Springs	230.4	.0988	29.3	14.8	19.7	18
SUBURBAN TOTAL	97.1	.0415	24.7	20.7	18.5	
DENVER	1,535.6	.6581	30.0	12.7	21.4	1
Adams	264.1	.1132	27.5	14.6	20.1	18.
Thornton	43.3	.0186	26.5	13.6	25.4	15
Westminster	53.9	.0231	27.0	13.3	26.9	1
Arapahoe	338.6	.1451	29.7	11.4	21.6	2
Aurora	169.9	.0728	28.6	13.1	25.2	1
Denver	489.0	.2096	31.4	14.2	22.4	15
• Denver	489.0	.2096	31.4	14.2	22.4	
Douglas	30.9	.0132	30.4	7.4	18.2	
Jefferson	413.0	.1770	29.9	11.4	20.8	2
Arvada	97.9	.0420	28.9	11.3	19.8	22.
Lakewood	118.6	.0508	31.6	12.2	17.9	2
SUBURBAN TOTAL	1,046.6	.4485	29.3	12.1	20.7	
DENVER - BOULDER CONSOLIDATED AREA	*1,741.8*	*.7465*	*29.8*	*13.4*	*21.6*	*18.8*
FORT COLLINS - LOVELAND	166.0	.0711	28.1	19.2	21.2	1
Larimer	166.0	.0711	28.1	19.2	21.2	
• Fort Collins	71.3	.0306	25.4	29.2	21.9	13
• Loveland	34.1	.0146	30.7	11.5	19.9	17
SUBURBAN TOTAL	60.6	.0259	29.9	11.7	21.3	19
GREELEY	133.0	.0570	27.9	16.7	18.3	
Weld	133.0	.0570	27.9	16.7	18.3	16
• Greeley	56.9	.0244	26.8	22.9	18.9	14.1
SUBURBAN TOTAL	76.1	.0326	28.7	12.0	18.0	18.6
PUEBLO	127.3	.0545	31.1	12.4	16.2	1

REPRODUCED WITH PERMISSION OF S & MM MAGAZINE

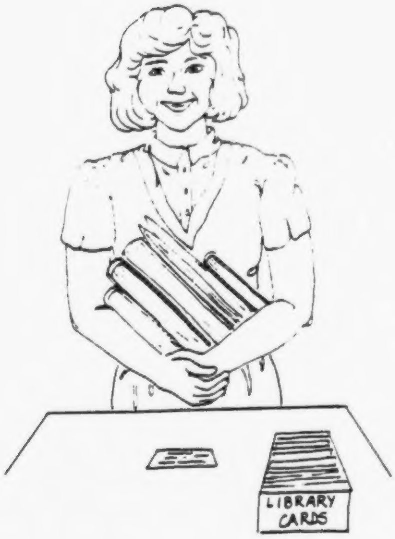
   - o Population percentage breakdown by income: Income levels are broken down into a number of categories; for each income amount, tells you what percentage of households earn that much. Most businesses would rather have lots of households earning in the middle income range. This would mean there would be more customers. If there were a lot of poor people and a few rich ones, there would be fewer customers for your products, though the median cash income figure (c. above) might be the same.

- o Total retail sales: how much is spent in retail stores by the customers?

- o Total retail sales for each of these types of businesses: food, general merchandise, furniture and household appliances, automotive, and drug. (If you are in one of these businesses now, you can quickly find what percentage of the market you are capturing.)

B. **Any college** in your area. Marketing departments of local universities and colleges will know where to find information that can help your business. If you are thinking of doing any survey research, they will be especially helpful -- and lots less expensive than professional market research firms. Call the business school or management department and ask for the person who coordinates the internship program or the outreach program. You will also profit from a visit to the college library.

C. **Vocational-Technical Institutes** (Vo-Tech schools) teach a wide variety of trade subjects. There are classes in running a supermarket, hardware store, landscaping, tree-trimming, home decorating and tailoring business. In addition, the individual instructors are a great source of information about the subjects they are teaching.



D. **Observation.** You can learn a great deal by simply observing what takes place in a shopping mall or individual store. You can count the number of people who pass by a certain store and watch their reactions. Do some people go in just to browse? You might even note the average length of time a customer spends in the store. Observation is one of the best methods of conducting market research. It provides quick and reliable information and is easy to do.

E. **Your Chamber of Commerce:** You probably are well acquainted with the activities of your local Chamber of Commerce. As part of their role as business boosters in your community, they collect information about the community and about local business. Chambers are often a good source for maps of the community. Most of their services are free.

F. Ask questions of **potential consumers.** This is commonly known as conducting a survey. And because of the importance of **asking the right questions,** we will concentrate heavily on this subject in the rest of the chapter.

G. **Wholesalers and Manufacturers.** This is a good source of information about a particular market, its customers and competition. Wholesalers, manufacturers and retailers generally know the trends in their business and will be pleased to help you. After all, when you go into business, you'll be buying from them!

H. The **Federal and State Government.** The U.S. Department of Commerce maintains field service offices throughout the country and each of these offices can provide you with pertinent information. The government also publishes reports on specific markets, industries and products, which may be of use to you. Likewise, you can obtain information from various state departments of commerce or business.

I. **Trade Associations.** The trade associations which serve a particular industry are wonderful sources of information about your industry and market.

J. **Business Publications.** Every industry has magazines, newsletters or pamphlets written exclusively for and about themselves. These can either be local or national.

K. **Media Representatives.** The advertising space salesmen who represent magazines, newspapers, radio stations and television stations are usually an excellent source of market information. Many of their companies maintain extensive research departments for this express purpose. And the information which they have is free.

L. **Competitors.** It is amazing what you can learn by going directly to your competition and asking for

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information, advice and help. If you feel uncomfortable about going to your direct competition, try contacting a business owner located 100 miles away or in the next state. Keep in mind, however, that information from a competitor, located even a short distance from you, may not necessarily apply to your business.

If you can ask the right people the right questions, then interpret and apply the information to your best advantage, you'll be in Utopia. It's hard to find the "right" people, and it's difficult to formulate those perfect questions. But the time you invest at the front end will pay big rewards.

First, who are the "right" people? Naturally, they are the ones who are most like the people with whom you'll be doing business. At this point, you will have to do some "blue sky" thinking. If you know exactly what business you are going into, write down everything you know about the kinds of people who will buy from you. This could include factors such as:

Income level
Age
Sex
Education
Location
Race
Religion
Hobbies
Skills
Health
Marital Status
Number of children
Age of home

Buying habits
Special interest
Physical handicaps
Own or rent a home
Do-it-yourself type
Eating habits
Spare time activities
Vacation activities
Age and type of car
Household pets
Job and position
Plus many others
as they apply.

If you plan a business-to-business activity, develop a similar list from a business standpoint.

When all the factors which apply to your potential customers are described completely, you have what is called a "customer profile":

Customer Profile

Income: $25-40,000
Age: 21-35
Sex: M or F
Education: High School +
Location: 10 mile radius
Hobbies: Sports
Health: Excellent
Marital Status: Married

It could be a pin-pointed profile, as it would be if you were selling chair lifts to handicapped homeowners. Or it could be a broad profile as it would be if you were opening a photography studio.

Your next step is to locate the right people to match your profile. A large number of possibilities exist. Do you stand on a street corner, watching for the most obvious match-ups? Do you stand near a store (that might offer the same product you plan to offer) and interview customers? Do you buy a mailing list that seems to match your profile then conduct a mail survey? Or -- if your profile is particularly tough -- do you first conduct a general survey, then try to extract a smaller group that matches your profile? You'll have to decide.

When you identify the group of people who most closely match your customer profile, these people become your "sample". They are a sample of the general public who are the type of people you will most likely do business with. If they are a truly representative sample, their number could be quite small. (National polling organizations, such as the Gallup Poll and the Harris Poll, use such a scientifically selected sample that they can reach conclusions from a tiny fraction of 1% of the total audience.) Just remember that the smaller your sample, the greater will be your margin of error. A sample that's too small, or poorly selected, can give you false information.

Surveys are an essential part of market research. As we've stated before, the object of a survey is to gather information from a group of individuals or businesses on a specific subject. There are basically four types of survey interviews:

1. Personal interview
2. Telephone interview
3. Mail interview
4. Focus groups or group interview

Personal Interview

This is the most popular questioning technique. It's the one which produces the most accurate and complete information. It is also the most costly and time consuming.

Using this method, you deal with people on a one-to-one basis. You conduct the interview yourself or hire someone to do it for you.

The participants in your survey can either be chosen randomly (i.e., on a downtown street corner) or specifically (i.e., in front of a particular store or every house on a block).

EXCUSE ME... MAY I ASK YOU A FEW QUESTIONS?

It is the most accurate method because you are talking directly to the people involved in the survey. In fact, you will probably find that some individuals will tell you more than you want to know on the subject.

It is the most costly because it involves a large amount of your time, especially if you, or people you hire, interview people in a number of different locations.

There are some very important advantages in using the personal interview survey. They include:

- You can ask your questions in great detail.
- You can show pictures and diagrams.
- You can ask follow-up questions.

One thing to keep in mind when conducting the survey is to aim for a good cross-section of the population. Or more specifically, look for people who are **most like** the customers you will serve. For example, if you are thinking of starting a cooking school, you might assume you need to interview only women. Wrong! There are plenty of boys and men who enjoy cooking and would like to start taking lessons. And, if they don't, they have wives, girlfriends, mothers and sisters who might have some very definite opinions on the subject.

The same is true if you're planning to open a sporting goods repair shop. Don't assume that all of your customers will be men. You might be omitting a very valuable group of people who could give you some necessary insights into your business.

Telephone Interview

The second, and perhaps the easiest, type of survey can be done by phone. You can conduct this type of interview from your home and do as many or as few as your schedule allows. One disadvantage is that it is much harder to choose a select group of people to interview using this system. Instead, you will probably have a very random sampling of people. Your questionnaire should be brief. People can become very impatient when they are kept on the phone for a long period of time. It's important to remember that every person you talk to is doing you a favor and they know it. Be considerate of their time schedules.

PHONE INTERVIEWS

Mail Interview

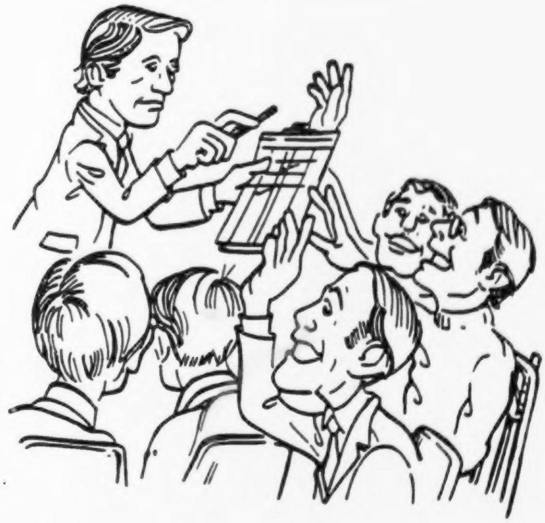
This type of survey requires much more organization than the first two. You will need a select list of people and their mailing addresses to send out your questionnaire. You may find that a mailing list is available (at a cost of $20-$40 per thousand names) that enables you to reach just the right people. You must include postage or a reply envelope for the return mail.

It is ideal for reaching people living out-of-town or businessmen who are hard to reach by phone or in person.

The disadvantage is that you have no control over who will respond. The people to whom you send the questionnaire will see no advantage in helping you. Some will probably decide they do not wish to spend the time answering your questionnaire, some will immediately throw it away, and some will lose either the questionnaire or return envelope in the pile of mail on their desk. Those who do respond may scribble in unreadable answers, may answer some questions and not others, or may return the questionnaire **months** after you mail it to them. You will be lucky to get as high as a 5% return (that is 5 surveys returned for every 100 mailed out).

By comparison, the telephone survey should give you a 60% response; and the personal interview should give a response as high as 90%. With both of these, you will be better able to judge the accuracy of individual comments.

Focus Group or Group Interview



An interesting variation of the personal interview is the "focus group" or group interview. This technique enables you to get the reactions or opinions of several people at one time. It offers the advantages of a personal interview and adds the spontaneity and depth of a group.

Many companies use this technique when developing new products, new marketing strategies or new business procedures. It gives them quick feedback in a private atmosphere. Each member of the group has the opportunity to see, hear, taste or whatever is required, and offer opinions. Often one opinion or idea will spark another. And, if the group is encouraged to speak freely, a highly productive brainstorming session develops.

You can organize your own focus group from among your friends, provided they are carefully chosen. Or you may find a local church, school or civic organization that may provide a group for a modest charge. Try to make sure, however, that the group bears some resemblance to that customer profile you developed.

To get maximum value from a group interview, here are a few rules to follow:

1. Use a strong leader. If that's not you, ask someone to take that important role. Every group needs a leader to keep steering in the right direction, to prevent someone else from dominating, and to ask the right questions.
2. Encourage the group to provide honest, accurate opinions and to express them openly.
3. Each individual, however negative he might be, represents a segment of your market. If he is silent or withdrawn, he must be encouraged to speak.
4. Do not feed opinions of your own or show your prejudices in any way to the group. This will lead to false feedback.
5. Use a blackboard or flip-chart to record opinions. The visual impact usually sparks helpful conversation.
6. Appoint someone to take notes for you.
7. Don't trust the results of one such group interview. Verify your findings through another group, or even a third one.

How to Design a Questionnaire

One of the keys to successful market research is to have a clear purpose in mind before you begin. This means you need to know which marketing questions will help you to conduct your business successfully. Having this purpose in mind will prevent you from wandering off the track into information that will not pay off for you. To determine the value of a question before you start your research, judge **how you would use the** results. Doing this exercise before you have the results usually will point out useless or inadequate questions. Make each of your questions worthwhile.

Since you have decided to go to the trouble and expense of conducting a market research survey, it's important that you develop questions which suit your needs. Basically, there are several rules to follow when designing a survey. They are:

1. Keep your questions brief and clear. For example, asking: "When you purchase milk, what is the usual size you buy?" is much better than asking: "When you go to the store to make your grocery purchase and you stop in the dairy department after making other grocery purchases, when you select the milk you wish to purchase, what size or how large a purchase is it?" Vague questions lead to vague answers.

2. Ask direct questions about your subject. In one survey conducted by a store manager, this question was asked:

"What brought you here today?" The manager wanted to know **why** the customers had chosen to shop at his store. Unfortunately, some people misunderstood the question and put down such answers as "a car", "the bus", and "a friend brought me". The answers weren't wrong, but they didn't help the store manager find out what he wanted to know.

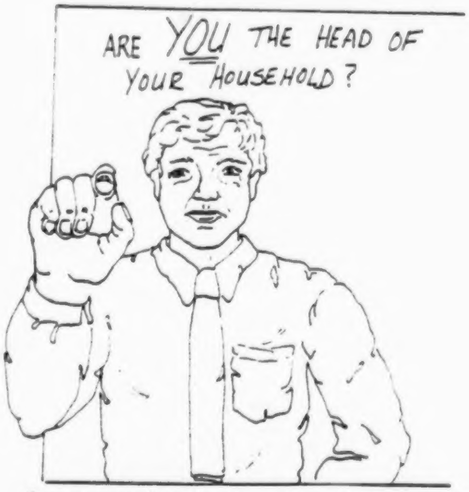
3. Ask questions which can be answered easily, but remember to follow up most YES and NO questions with a "WHY" question or one that asks for more information.

4. Ask questions which can be interpreted easily. You are going to be interviewing anywhere from 10 to 200 people and you need to get information from them that can help you make decisions about your business. When questions

become too long and involved, so do the answers. And you will spend more time trying to figure out what people meant than is necessary.

5. Make sure the questions are understandable to a wide range of people. You don't want to waste time explaining the same question again and again.

6. Make sure your questions do not offend anyone. A recent merchandising survey done by a national magazine included the question: "Are you the head of the household?" The magazine was trying to find out if the person whom they were interviewing made the majority of the purchasing decisions. Many women (and men), however, found the question outdated and offensive. On a revised survey, the question was left out. Questions about family income, occupations and age should all be handled delicately, and included in your survey only if relevant.

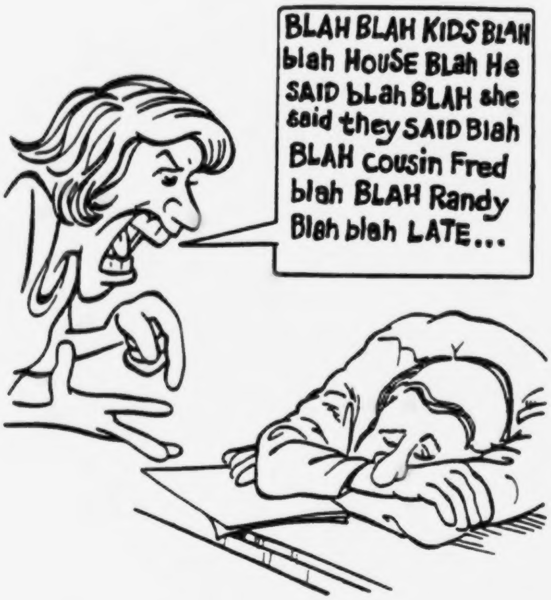

ARE YOU THE HEAD OF YOUR HOUSEHOLD?

7. Be honest with the intent of the questionnaire. If you're thinking of opening a hardware store in the shopping mall, say that. Don't tell people that you're asking these questions to see how newspaper advertising affects the hardware business. It isn't fair to them and you could be cheating yourself as well. You may get a long speech on what's wrong with newspapers and advertising, and learn nothing about the potential customer's feelings about a hardware store in the shopping mall.

8. Don't answer the questions for them. The reason you are interviewing consumers is to find out what **they** know, not what **you** know. Recently, a computer company decided to do a survey on how their brand of computer was viewed by the public. They conducted the survey nationally, but cautioned the interviewers not to mention the name of the computer when asking various questions.

Their reasoning was simple: If the results of the survey showed that a majority of people had not heard of their product, there was something wrong with their advertising campaign. The same is true for your questionnaires. Do not prompt people into saying something they don't mean.

9. Give the person you are interviewing enough time to answer the questions. In point one we advised you to keep the questions brief. But this does not mean the answers have to be brief. The hardest obstacle you will encounter in doing a market research survey is getting someone to take the time to talk to you. Once they have agreed to do the survey, everything should go smoothly. So don't set a time limit of, say, 5 minutes per person, or you are going to miss out on some helpful comments. Don't cut someone off while they are responding. That isn't to say you should listen to the entire story of their last gall bladder operation or admire 17 pictures of grandchildren either. A good rule to follow is to treat the people interviewed the way you would like to be treated. Ask for their "advice" and emphasize how much they are "helping" you.


BLAH BLAH KIDS BLAH blah HOUSE Blah He SAID bLah BLAH she said they SAID Blah BLAH cousin Fred blah BLAH Randy Blah blah LATE...

10. Be sure you understand all the answers you receive. Don't be afraid to read back what was just said to make sure it's accurate.

11. Do not be alarmed or upset by any of the answers you receive. And if you are, don't show it. Don't argue about an answer to any of your questions. If the person says they've never heard of your product or service, they haven't. If they say they wouldn't want a health food restaurant in the shopping mall, take them at their word. Try to remember that you are doing this survey to find out what should be changed, and you need people to be as honest as possible.

12. Be courteous when asking people to participate in your survey. Some people simply will not have the time or the inclination to help you. Do not press them or act insulted when they refuse. In one case, a young woman told the interviewer she was in a hurry to get her shopping done. About an hour later, the same woman came back and said she had finished her shopping early and now had the time to fill out the questionnaire. This probably won't happen often, but it doesn't cost you anything to be courteous to everyone you deal with.

A good way to double check your questions is to test them with another question: CAN THE ANSWER BE MEASURED? If the answers can't be counted or categorized in some way, be careful. Questions which ask for subjective answers should probably be changed.

It is a good idea to "test" your questionnaire on a few friends before you actually use it. That way, you can determine if your questions are clear and will give you the answers you need.

Questionnaire Examples

The following are five types of questionnaires which were designed by the owners of small businesses. In the first (the car wash survey mentioned earlier in the chapter), each customer was handed a clipboard and asked to fill out a questionnaire while their car was being washed.

This was not a random sampling because each person used was a customer of the Rose Car Wash. It was designed to be completed in the length of time it took to wash a car. And it was done over a week's time to reach the customers who washed their cars during the week as well as the weekends.

You'll note that the owner was primarily interested in how each customer had heard about his business. However, he also included questions on what he could do to improve his business such as changing the hours the car wash was open. As a result of his findings, he decided to keep his car wash open an additional 2 hours on Sunday.

The next survey, dealing with commercial warehouse space, was done by a businessman who was interested in building a warehouse. Before he made the commitment of time and money, however, he needed to know if there was a demand for such a service. He sent his survey to all business establishments within a two-mile radius of the proposed site.

He found that not only was there a demand, but several businesses wanted to reserve space before it was even built! He built a warehouse with space for 50,000 square feet of storage room, and before it was completed, 30,000 square feet had already been leased.

This same businessman developed the third questionnaire on warehouse space, but sent the survey to home and apartment dwellers. The results revealed that these people would represent a very small portion of his business. Therefore, he decided to emphasize business use in his advertising campaign.

The fourth questionnaire was designed by a man who wanted to know if there would be a demand for giftware from India and Pakistan in the small town where he lived. He found that the majority of people would be interested in such a store, particularly since there was nothing of that type in the surrounding area.

The last questionnaire was developed by a woman who was interested in opening a fabric store and offering sewing lessons. From the women she interviewed, she discovered that there was a real need for both a fabric store and sewing lessons. She opened the shop which did extremely well.

In each of these cases, the small business owners learned enough from a market research survey to make intelligent, responsible decisions. But what happens when the results of the survey aren't so positive? Does this mean you discard the idea and go into another business?

Not necessarily. To a certain extent you must use your own judgement. The market research survey should be used as a guide, not the final answer. If, for example, the survey on giftware from India and Pakistan had revealed that the majority of people were not interested in seeing a gift shop of this type in their town, you need to analyze why they responded that way.

It could be that the people were unfamiliar with this type of giftware. Maybe they assumed the items would be too expensive because they were imported. Whatever the case, the way they answered the questionnaire might not necessarily reflect the way they would react if the store were actually there.

In any case, the market research survey can give you some valuable information about your customers and potential business location. What you choose to do with the results is up to you.

ROSE CAR WASH SURVEY

We are interested in knowing what you think about our service. Accordingly, we have prepared a brief questionnaire which we would appreciate your answering while your car is being washed. Your candid criticisms, comments and suggestions are important to us.

Thank you, ROSE CAR WASH

1. Do you live/work in the area? (Circle one or both)

2. Why did you choose to come to ROSE CAR WASH today? (Circle all that apply.)

   Close to home
   Close to work
   Convenience
   Good Service
   Full Service Car Wash
   Other

3. How did you learn about us? (Circle one)
   Newspaper
   Mailing
   Drove by and stopped
   Recommended by someone
   Received coupon at work
   Other

4. How frequently do you have your car washed during the winter? (From November 1 to April 30) Please try to estimate.
   _____ times per month
   _____ Other

5. How frequently do you have your car washed during spring and summer? (May 1 to October 31)
   _____ times per month
   _____ Other

6. Which aspect of our car wash do you think needs improvement? ____________________
   ____
   ____
   ____
   ____

7. Our operating hours are from 8:30 a.m. to 6 p.m. weekdays and Saturdays and from 9 a.m. to 2 p.m. on Sunday. We are closed on legal holidays. What changes in our operating hours would be better for you?

Weekdays	Saturday	Sunday
Open 8 a.m.	Open 8 a.m.	Close 3 p.m.
Close 7 p.m.	Close 7 p.m.	Close 4 p.m.
Close 8 p.m.	Close 8 p.m.	Close 5 p.m.
Close 9 p.m.	Close 9 p.m.	No change
No change	No change	

8. Approximate age: Circle one
   Under 25   26-39   40-59   Over 60

Comments: (Favorable and Unfavorable) ____________________
____
____
____
____

COMMERCIAL WAREHOUSE QUESTIONNAIRE

1. Are you presently renting any commercial warehousing space?
Yes______ No______
If NO, go to question 2. If YES, continue with questions 1a to 1f.

1a. Where do you presently rent your warehouse space (name and address): ____
____

1b. How many times a month do you enter the warehouse or use it?
____

1c. Is your warehouse space heated? ___yes ___no ___don't know

1d. Approximately how much warehouse space are you renting?
____________________ square feet

1e Do you think you will need additional space in the future?
Yes______ No______

1f. Are there any changes or improvements you would like to see made in your present warehousing arrangements?
Yes______ No______ Don't Know______

If YES, what improvements would you like to see made?

2. Are you planning on using any rented storage or warehouse space?
Yes______ No______ Don't Know______
If NO, end interview. If YES or DON'T KNOW, continue to questions 2a through 2d.

2a. If you are planning to rent warehouse space or may rent such space, how long in terms of time would you be willing to travel to use your space? ________________ minutes

2b. What would be the approximate size of your storage space needs? ____________ square feet

2c. How much monthly rent would you be willing to pay?
$______________per square foot/month

2d. Would you require heat for your rented warehouse space?
Yes_____ No_____ Don't Know_____

NAME:______________________________ TITLE:______________________

Business Name:____

Business Address:____

Thank you for your cooperation.

IMPORTED HANDMADE GIFTWARES QUESTIONNAIRE

1. Have you ever purchased or received as gifts any imported handmade giftwares?

   Yes_____ No_____

2. Have you ever purchased or received as gifts any handmade giftware from India or Pakistan?

   Yes_____ No_____

   If Yes, what type of giftware?

   Wooden _______ Marble _______ Brass _______

   Copper _______ Cotton _______ Other _______

   Please specify: ______________________________

3. Would you be interested in purchasing the above mentioned handmade giftwares from Pakistan or India?

   Yes _______ No _______

   If Yes, would the item be used:

   a. In your home for you or your family's enjoyment____

   b. As a gift_____

   c. Other _____ Please specify: ____________________

4. Do you know where to shop for such giftware?

   Yes _______ No _______

5. When buying foreign handmade giftware, what do you value the most? On a scale of 1 through 4, list in order according to preference beginning with number 1 as your most valued choice:

   Craftsmanship _____ Cost _______ Uniqueness ______

   Other ____________ Please specify ________________

FABRIC STORE QUESTIONNAIRE

1. Do you do home sewing? _____ Yes _____ No

If NO, please answer questions to Part A.
If YES, please answer questions to Part B.

A. Please check reasons for not doing home sewing.

Lack of interest ___________
Lack of knowledge ___________
Poor availability of fabric selection ________
Other ____________________

B. Check type of sewing you do.

Children's wear ___________
Ladies wear ___________
Home decorating ___________
Other ____________________

Which patterns do you use?

____ McCall's ____ Simplicity ____ Kwik Sew

____ Butterick ____ Vogue

Check your age group

10 - 18 ________
19 - 28 ________
30 & Over ________

Where do you buy your material?

In town ____ Out of town ____

How far do you live from our town?

In town ____ 10-15 miles ____ Out of town ____

Do you think our town needs a fabric shop? ____________

Would you be interested in sewing classes? Yes __ No __

What classes would interest you?

Basic sewing ________
T-shirt ________
Pants ________
Tailoring ________

Lingerie ________
Infant wear ________
Men's wear ________
Other ________

Please note any suggestions or comments you might have.

Other Types of Market Research

There are other types of research you can do yourself that may be easier than a survey -- and more creative too!

You can learn a lot from **your competitors**. Pretend you're a customer and visit them at different times of the day. When you're back in your car, fill out a competitor analysis form. (See Chapter 4, Where to Locate Your Business.) Your answers will give you lots to think about for improving your own operation.

Try a license plate analysis of your competitors. Where do they come from? How many of these people would find it more convenient to shop at your establishment?

Another great way to get information is to **make your advertising dollar do double duty.**

When you look into advertising in Chapter 8, you will learn about **tracking for advertising**. What this means is that when you advertise, there are a number of ways for you to find out who responded to your ad.

For example, whenever you run a coupon in a publication, code it so that when your customer redeems it, you will know where it came from. For instance, code the coupon offer in the campus paper "A", and the ones in the neighborhood papers "B" and "C". Save all the coupons that are redeemed and when the offer is over, figure out which paper had more customer response. Or more important, figure the cost per inquiry for each publication. Also, when the coupons are redeemed, you can write the customers' phone numbers on the coupons (let them know you won't be calling them) and you can pinpoint the responses even better.

The same can be done with broadcast ads. Do a "Tell 'em Joe sent you" ad for one radio station and a different one for the second station. Try rock, country, classical, or easy listening format stations. Keep track of which station sent in the most customers. Then check with the station to find out who their average listener is -- age, occupation, income, etc. -- you'll find out about your clientele for the same money you're using to boost sales.

Another group that really knows your territory is the **sales reps** and **wholesalers**. These hardworking guys and gals make it their business to know what is happening in your business community. Take one out for coffee and pick his or her brain.

One final word: Don't fall blindly in love with your research findings. There might have been flaws in your survey or the people you questioned. But if you ask the right people the right questions, you can use the results to draw up a blueprint for the future.

But don't stop there. You'll need more surveys later to tell you about the trends, preferences and attitudes of your customers.

You have just completed the chapter on Market Research. In this chapter you have learned:

1. If you are considering going into a small business, market research can be very valuable in helping you answer certain questions you may have.

2. If you are already in a small business, market research can be a valuable tool for you in solving problems.

3. Market research is a tool by which you can gather information from people like your future customers.

4. There are four basic methods you may use when conducting a market research survey: 1. personal interview; 2. telephone interview; 3. mail interview; and 4. focus group or group interview. Of these, the personal interview will give you the most accurate and complete information.

5. The design of your questionnaire is very important in getting the right information for your business. You have learned just what to include to make yours the most accurate for your individual needs.

6. There are many places in your community where you may gather information: libraries, vocational-technical schools, competitors, customers, potential customers, trade associations, publications and government agencies.

SOURCES OF INFORMATION

The listings in this Bibliography give reference sources of interest to persons needing information, statistics and maps for market analysis projects. All prices and availability of publications listed are subject to change. No slight is intended toward reference sources not included. AISB would appreciate receiving information about new publications in this field and about changes in the present listings for consideration when this Bibliography is revised.

Many of the publications listed, especially those issued by Government agencies, are available in most public and university libraries, field offices of the Small Business Administration and, field office libraries of the Department of Commerce.

The publisher's name and address are given along with the title of the publications with a brief description. Most of these listings may be purchased or ordered by mail directly from the publisher. Contact the publisher or source for price information.

Government publications can be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. When ordering, give the publication's title, series number if given, and the name of issuing agency. In many instances, there will be a charge for government publications. This cost or charge will be furnished upon request to the Superintendent of Documents, U.S. Government Printing Office.

The statistical and map reference materials listed in this Bibliography are useful in such market analysis tasks as allocation of sales effort by area; appraisal of market opportunity; control of sales performance, design of sales compensation and incentive plans; establishment of sales quotas and marketing goals; and planning of distribution facilities and methods.

Consult your local library for additional reference material or write to the AISB, 7515 Wayzata Boulevard, Suite 201, Minneapolis, MN 55426.

GOVERNMENT PUBLICATIONS

BUREAU OF THE CENSUS BIBLIOGRAPHY, Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Part I lists all publications issued by the Bureau of the Census. Part II lists available data files, special tabulations, and other unpublished materials. Both indexed. 500 pp. S/N 003-024-066-37-8.

CENSUS OF BUSINESS BIBLIOGRAPHY, Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Census of Retail Trade for the United States, Individual States, Industry Series statistics, Census of Wholesale Trade for the Country and Individual States, County Business Patterns for the Country and Individual States. Includes such references as:

Census of Retail Trade for the U.S. and each individual state as well as major retail centers in standard metropolitan statistical areas.

Census of Service Industries consisting of approximately 53 reports such as:

- Capital Expenditures, Depreciable Assets, and Operating Expenses.
- Establishment and Firm Size.
- Hotels, Motels, and Other Lodging Places.
- Miscellaneous Subjects (Including Census of Transportation Establishment Statistics).
- Motion Picture Industry.

Census of Wholesale Trade for the United States and individual states. Information includes such topics as: Sales, firm size, and other subjects.

County Business Patterns includes information on employment, payrolls, number and employment size of establishments by detailed industry.

Census of Industry Reports include those on:

- Agriculture
- Construction Industries -Geographic Area and Industry Series
- Manufacturers - Geographic Area and Industry Series.
- Mineral Industries - Geographic Area and Industry Series
- Retail Trade - Geographic Area Series
- Retail Trade - Major Retail Centers
- Retail Trade - Merchandise Line Sales.
- Service Industries - Geographic Area Series
- Transportation - Truck Inventory and Use Survey
- Wholesale Trade - Geographic Area Series

COUNTY AND CITY DATA BOOK, Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. A total of 195 statistical items tabulated for the U.S., its regions, and each county and state; 190 items for each city; and 161 items for 277 Standard Metropolitan Statistical Areas. Information is derived from latest available censuses of population, housing, governments, retail and wholesale trade, and selected services. Also, includes data on health, vital statistics, public assistance programs, bank deposits, vote cast for President, and crime.

STATISTICAL ABSTRACT OF THE UNITED STATES, 1987 (107th edition) Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. The standard summary of statistics on the social, political and economic status of government and business in the United States. Designed to serve as a convenient statistical source. Includes an introductory text to each section, appendixes, and an index. Comes with pocket-size supplement "USA Statistics in Brief", which summarizes important data for quick and easy reference. Includes numerous maps, charts, and tables. Published annually. S/N 003-024-06572-0.

STATISTICS FOR STATES AND METROPOLITAN AREAS. (A preprint from County and City Data Book). Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Presents data for 195 statistical items for the U.S., its regions, and each state, and 161 items for 277 Standard Metropolitan Statistical Areas.

SBA MARKETING AND RESEARCH PUBLICATIONS

SBA issues a wide range of management and technical publications designed to help owner-managers and prospective owners of small businesses. To order the following SBA publications, write to U.S. Small Business Administration, P.O. Box 30, Denver CO, 80201-0030.

BUSINESS BASICS, Each of the 23 self-study booklets in this series contains text, questions and exercises that teach a specific aspect of small business management.

No.	1001	The Profit Plan
	1002	Capital Planning
	1003	Understanding Money Sources
	1004	Evaluating Money Sources
	1005	Asset Management
	1006	Managing Fixed Assets
	1007	Understanding Costs
	1008	Cost Control
	1009	Marketing Strategy
	1010	Retail Buying Function
	1011	Inventory Management - Wholesale/Retail
	1012	Retail Merchandise Management
	1013	Consumer Credit
	1014	Credit and Collections: Policy and Procedures
	1015	Purchasing for Manufacturing Firms
	1016	Inventory Management - Manufacturing/Service
	1017	Inventory and Scheduling Techniques
	1018	Risk Management and Insurance
	1019	Managing Retail

Salespeople
1020 Job Analysis, Job Specifications, and Job Descriptions
1021 Recruiting and Selecting Employees
1022 Training and Developing Employees
1023 Employee Relations and Personnel Policies

MANAGEMENT AIDS, (4 to 8 page leaflets). Each title in this series gives guidance on a specific subject or management problem for owners and managers of all types of small businesses. Prices vary.

NON SERIES PUBLICATIONS

A BASIC GUIDE TO EXPORTING, 003-009-00349-1 (Commerce Dept.)

U.S. GOVERNMENT PURCHASING AND SALES DIRECTORY, A directory for businesses interested in selling the U.S. Government. Lists the purchasing needs of various agencies. 045-000-00226-8

MANAGING FOR PROFITS, Discusses the various management functions.
045-000-00206-3

BUYING AND SELLING A SMALL BUSINESS, 045-000-00164-4

WOMEN BUSINESS OWNERS: SELLING TO THE FEDERAL GOVERNMENT, 045-000-0029-2

SMALL BUSINESS BIBLIOGRAPHIES, (4 to 12 page pamphlets) Each title in this series gives guidance on a specific subject or management problem for owners and managers of all types of small businesses.

SMALL BUSINESS MANAGEMENT SERIES, Each booklet in this series discusses in depth the application of a specific management practice. The series covers a wide range of small business subjects.

STARTING AND MANAGING SERIES, This series is designed to help the small entrepreneur "to look before leaping" into a business.

No. 1. Starting and Managing a Small Business of Your Own.
101. Starting and Managing a Small Service Business.
102. Starting and Managing a Small Business From Your Home.
103. Small Business Incubator Handbook: A Guide for Start-up and Management.

COMMERCIAL PUBLICATIONS

CONSULTANTS & CONSULTING ORGANIZATIONS DIRECTORY LIST, Gale Research Co., Dept. 77748, Book Tower, Detroit, MI 48226, Unduplicated Total - 9,907. Consultants and Consulting Organizations Directory covers U.S. organizations consulting in business, industry and government.

E & P MARKET GUIDE, Editor and Publisher Company, 11 West 19th, New York, N.Y. 10011. Tabulates current estimates of population, households, retail sales and for nine major sales classifications, income for States, counties, metropolitan areas, and 1,500 daily newspaper markets. Also lists specific information on major manufacturing, retailing, and business firms, transportation and utilities, local newspapers, climate and employment, for newspaper markets. Includes states maps. Annual.

ENCYCLOPEDIA OF BUSINESS INFORMATION SOURCES, 6th Edition, Gale Research Company, Dept. 77748, Book Tower, Detroit, MI 48277-0748. Edited by James Woy. The newly revised and updated edition is a comprehensive guide to sources of information on highly specific topics. Arranged by subject, the new edition contains about 25,000 entries on nearly 1,000 specific subjects. Cites both live and print sources of information. 878 pp.
L.C. 84-643366 (ISBN 0364-7)

ENCYCLOPEDIA OF BUSINESS INFORMATION SOURCES SUPPLEMENT. Gale Research Company, Dept. 77748, Book Tower, Detroit, MI 48277-0748. Furnished entries on new sources of business information and adds coverage of 70 new subjects. 160 pp. (ISBN 2115-7)

GOVERNMENT RESEARCH DIRECTORY LISTS. Gale Research Company, Book Tower, Detroit, MI 48226. Unduplicated Total- 2,386. Government Research Directory covers U.S. government research and Development centers, institutes, laboratories, bureaus, test facilities, experiment stations, data collection and analysis centers and grants management and research coordinating offices in agriculture, business, education, energy, engineering and more.

A GUIDE TO CONSUMER MARKETS. The Conference Board, Inc., Information Services, 845 Third Ave., New York, N.Y. 10022. Presents a detailed statistical profile of U.S. consumers and the consumer market. Contains data on population growth and mobility, employment, income, consumer spending patterns, production and sales, and prices. Available as a part of a subscription to the center.

1987 S&MM'S SURVEY OF BUYING POWER (PART I), Sales and Marketing Management, 633 Third Avenue, New York, N.Y. 10164-0563. Few market strategists will make a decision without consulting the highly regarded Survey of Buying Power. Released annually in July, the Survey provides current figures on the population and demographics, effective buying income, customer spending patterns, retail sales breakdowns for major lines, and market quality indexes for state, county, city and metro markets...everything you need for targeting potential customers in all geographic areas. If you require an even more detailed breakdown of marketing facts, see the Survey of Buying Power Data Service. #55500

1987 S&MM'S SURVEY OF BUYING POWER (PART II), Sales and Marketing Management, 633 Third Avenue, New York, N.Y. 10164-0563. This special complement to the July Survey is published annually in October. It details the population, income, retail sales and buying power figures for television and newspaper markets in the United States. The data for the television markets reveal areas of dominant influence (ADI) while newspaper markets are identified both in terms of dominance and effective coverage. It also includes 5-year projections for growth in all U.S. metros and states, by population, income, and retail sales. You'll also find rankings of U.S. metros by retail merchandise line sales. #55600

S&MM'S SURVEY OF BUYING POWER - DATA SERVICE 1987, Sales and Marketing Management, 633 Third Avenue, New York, N.Y. 10164-0563. Gives income levels, buying power, retail sales, age, sex and household demographics, market growth, rankings, projections and more for every county, metro area and TV market in the country. You can quickly evaluate sales performance, spot potential crises before they develop, establish marketing plans based on hard information.
Complete demographic and economic data including state and regional summaries, total percentages and rankings for population, age and sex, Effective Buying Income (EBI) retail sales, and Buying Power Index (BPI). #55800

STATISTICS SOURCES: A SUBJECT GUIDE TO DATA ON INDUSTRIAL, BUSINESS, SOCIAL, EDUCATION, FINANCIAL, AND OTHER TOPICS FOR THE UNITED STATES AND SELECTED FOREIGN COUNTRIES. 11th Edition., 1987. Gale Research Company, Dept. 77748, Book Tower, Detroit, MI 48826-0748. Provides thousands of sources of statistics on about 20,000 subjects with 60,000 citations.

1987 SURVEY OF INDUSTRIAL & COMMERCIAL BUYING POWER, Sales and Marketing Management, 633 Third Avenue, New York, 10164-0563. This 14th annual Survey is comprehensive, authoritative, and up-to-date. The Survey's exclusive data on 1986 shipments/receipts at the county level provide the most current information available on your markets. The Survey profiles all of the states as well as the top 50 manufacturing industries. This indispensable business-to-business marketing tool has now been expanded to include service industries (finance, health care, transportation, wholesale trade). #55400.

1987 SURVEY OF SELLING COSTS, Sales and Marketing Management, 633 Third Avenue, New York, N.Y. 10164-0563. Published annually in February, this valuable compilation of selling facts and figures covers a lot of ground. It provides exclusive "selling cost index" and "cost per sales call" estimates for the leading metro markets across the country. It highlights the markets with the highest and lowest sales costs and outlines the sequence for preparing a sales cost budget. It will help you determine and control such selling expenses as sales training, meetings, travel and entertainment, compensation and sales support activities. #55300.

TRADE SHOWS & PROFESSIONAL EXHIBITS DIRECTORY LIST, Gale Research Company, Book Tower, Detroit, MI 48226. Unduplicated Total - 3,253. Trade Shows and Professional Exhibits Directory covers organizers of exhibits, conventions, meetings, trade and industrial shows in the U.S. and Canada.

PUBLICATION SOURCES OF INFORMATION

Publications such as Magazines in specific fields frequently publish considerable Market and Marketing information in the areas that they specialize in. They provide studies to their Advertising Clients and Agencies and this information is generally available to consumers. In addition, their editorial departments usually maintain complete files on past articles that have appeared in their publications on various subjects relating to their area of specialization.

Newspaper Display Advertising Departments frequently conduct Readership and Non-Readership studies in their trade areas. In addition, they usually have current market and trade area information on their specific community.

Magazines:

> **BACON'S PR AND MEDIA INFORMATION SYSTEMS**, 332 South Michigan Avenue, Chicago, IL 60604. Provides a Directory of publications in alphabetical order by subject. Developed primarily for Publicity and Public Relations releases.
>
> **STANDARD RATE AND DATA SERVICE, INC.**, 3004 Glenview Road, Wilmette, IL 60091. Provides a Directory of publications in alphabetical order by subject. Developed primarily for advertisers Includes information on Advertising rates, Circulation Data, Readership and Publication information.

Newspapers:

> **BACON'S PR AND MEDIA INFORMATION SYSTEMS**, 332 South Michigan Avenue, Chicago, IL 60604. Provides a Directory of newspapers in alphabetical order by subject. Developed primarily for Publicity and Public Relations releases.
>
> **STANDARD RATE AND DATA SERVICE, INC.**, 3004 Glenview Road, Wilmette, IL 60091. Provides a Directory of newspapers in alphabetical order by subject. Developed primarily for advertisers. Includes information on Advertising rates, Circulation Data, Readership and Publication information.

68

GALE DIRECTORY OF PUBLICATIONS, 1987, 119th Edition. Gale Research Company, Book Tower, Detroit, MI 48226. The longest continuously published directory of periodicals in America has been acquired by Gale and will be published under this new title. Formerly titled Ayer Directory of Publications and more recently IMS Directory of Publications. This directory provides information on magazines, newspapers, journals, newsletters and special interest periodicals, and other periodicals published in the United States and Canada. The 1987 edition contains 1,000 brand new entries. The geographically arranged directory includes Alphabetical and Classification Indexes, plus many special sections. 1,453 pp (ISBN 1498-3)

COMPANY AND PRODUCT INFORMATION

Thomas Publishing Company, One Penn Plaza, New York, N.Y. 10017. Publishes detailed Registers including the Thomas Register of American Manufacturers and Thomas Register Catalog File-Company Profile which has an alphabetical listing by Company showing name, address, telephone numbers and listing of items manufactured and or supplied. The Company Profile Register also has in alphabetical order, a Trade Name Index of most trade names and the Products and Companies using the specific trade name.

THOMAS REGISTER OF AMERICAN MANUFACTURERS AND THOMAS REGISTER CATALOG FILE-PRODUCTS AND SERVICES which provides in alphabetical order, a listing by products and/or services of almost all American manufacturers. Provides name of Manufacturer, address, telephone number, and approximate size when available.

CHAMBER OF COMMERCE

WORLD WIDE CHAMBER OF COMMERCE DIRECTORY published by Johnson Publishing Company, Inc. Eighth and Van Buren, Loveland, Colorado 80537. Provides in alphabetical community order by states the name, address and telephone numbers of each Chamber of Commerce as well as International Chambers of Commerce.

FRANCHISE INFORMATION

THE FRANCHISE HANDBOOK, CESA Publications, Inc. 1020 North Broadway, Suite 111, Milwaukee, Wisconsin 53202. Provides Companies, location, contact person, description of operation, capital requirements and other data.

FRANCHISE OPPORTUNITIES HANDBOOK, Published by the United States Department of Commerce and can be obtained by writing to the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Provides listing in alphabetical order by category of Franchise-Companies, location, contact person, description of operation, capital requirements, managerial assistance available and training provided. Usually published annually.

ANNUAL FRANCHISE 500 · ENTREPRENEUR MAGAZINE, 2311 Pontius Avenue, Los Angeles, Calif. 90064. Published annually listing the name, address, and other information on the 500 leading franchise operations as considered by the publisher.

TRADE ASSOCIATIONS

Trade Associations are in a position to supply detailed and complete information, particular area and membership. Such information can include membership listing, market information on the industry, trade shows, research data, etc.

NATIONAL TRADE & PROFESSIONAL ASSOCIATIONS OF THE UNITED STATES DIRECTORY published by Columbia Books, Inc., 1350 New York Avenue N.W., Suite 207, Washington, D.C. 20005. Detailed listing of almost all trade associations showing name, address, membership, areas of interest, executive director and annual operating budgets. Has extensive index by Association alphabetical order, Subject, Geographic, Budget, & Acronym.

CHAPTER 3

A look at the future

Dollars in, dollars out

By now you probably have some good ideas about what kinds of products and services will sell in your market. You are well along the way toward developing a plan for your business that will work as hard as you do. Good planning means success will soon follow.

Wouldn't it be helpful if you could estimate what your sales and expenses would be 6 or 12 months in the future? Just imagine: you would know how much inventory you would need to have on hand; you would know what your overhead expenses would be; you would even know how much money you were going to pay yourself!

With a little bit of imagination and a sharp pencil, you can do this kind of "fortune telling" for yourself.

Some people call it forecasting. Some call it budgeting. Your accountant probably calls it projecting or calculating a "pro forma". No matter what you call it, it means the same thing -- you are imagining what will happen in the future so that you can plan accordingly.

THE ART OF FORECASTING

Financial forecasting is an art, not a science. No matter how carefully you think you have planned, you will not hit your projection exactly.

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You can, however, come very close.

In this chapter you will learn how to accurately forecast your sales and expenses. This will be very useful in virtually every aspect of your future planning.

"FUTURE TRENDS

Forecasting sales is like forecasting the weather. A sales forecast is no more (and no less!) than an educated guess as to how many sales you expect to make over a specified period of time. There are several ways of doing this:

1. You can use the LET-THE-BOSS-DECIDE Method, also known as the "jury of executive opinion" method. If this method were used at General Motors, the heads of its major divisions would pool their knowledge of the market to arrive at a joint opinion of how many sales to expect.

2. You can use the GRASS-ROOTS Method. This method is directed at your sales people and other employees who have the closest contact with the customer.

3. But since you are not a major American automaker, and you probably do not yet have a payroll, you had better consider the USER-EXPECTATION Method. With this method, you go directly to the consumer -- with questionnaires, on-the-street-corner surveys, telephone polls and any other opinion gathering device that will give you the story on what product or service sells (and why) and what doesn't (and why not).

Whichever method is used, the sales forecaster must consider seven elements which are as important to the neighborhood auto mechanic as they are to General Motors. These are:

1. The SALES PERFORMANCE OF YOUR COMPETITORS.
2. The LEVEL AND TREND OF CONSUMER SPENDING, in general and for the specific products or services of your business.
3. The GENERAL TRENDS OF YOUR INDUSTRY OR PRODUCT FIELD.
4. Past, present and future ECONOMIC CONDITIONS.
5. MARKET TESTS.
6. KEY VARIABLES.
7. Prior SALES and PERFORMANCE PATTERNS of your business, if available.

Do these look familiar? They should. These are among the questions you raised while doing market research. The answers to your earlier market research questions now play major roles in your sales forecast. To do this forecast accurately, you need to carefully analyze your research results. You need to put them all together, like the pieces of a puzzle. But you must do it in such a way that the picture of the future you get is the most accurate one possible. Don't let your hopes get in the way. Look at the facts long and hard; see how they relate to each other; and let your head (not your heart or your pride) make the decisions.

LOOKING AT THE BIG PICTURE

One of the easiest ways to develop a forecast for your business is to get a grasp of the industry big picture. Suppose you are considering a television dealership which sells to all of Jefferson County. You will sell television sets, video cassette recorders, stereos, microwave ovens, radios, tape recorders, and various supplies.

By talking to potential suppliers -- either distributors or factory direct salesmen -- you learn what the national sales are for each of these products and how much moves at what price.

In addition, the good salesmen have industry-supplied figures for Jefferson County sales for at least televisions and video cassette recorders. With their help, you estimate the retail sales for your product line for Jefferson County. You learn which months are best for sales and which are worst. For example, you are told that a large share of your sales will be between Thanksgiving and New Year's Eve.

Thus, by looking at the total sales potential for the county, you have a good starting point for your sales forecast. Because many of these salesmen formerly sold at retail or have sold other brands, they can tell you alot about your market and the industry. With their help, you devise marketing plans and strategies and estimate your share of the Jefferson County market. Because these salesmen have seen many new dealers enter markets in their territory (and some drop out), they can review your strategy and estimate your early monthly sales quite accurately.

These same salesmen can help you estimate your budget. They know average pricing and markups, county sales trends, credit policies, delivery costs, warranty opportunities, advertising expenses, inventory costs, and rebates. In addition, they can help you pick the best location because they know the strengths and weaknesses of retailers. If the salesmen know their business, they will make it easy for you to see a profit down the road. Remember, they want your business in order to fill in their weak market share areas.

But don't make a commitment to anyone at this point. Remember that you are just getting information. So, keep in control and make your own decision. Next week, your trusted salesman may be helping another entrepreneur get into business or converting your competitor to his line of products.

Not all businesses have such good statistics or easy access to competitive information. The following is a practical story of doing a survey to determine your sales forecast and establish a budget.

A SIMPLE STORY OF SUCCESS

To make this process as clear as possible, let's imagine a simple success story with you as the main character. In the beginning, long before you even saw a need to research your market, you did a lot of soul searching. You asked yourself what it was that you really liked to do and -- of equal importance -- what it was that you did best.

You always loved tools and tinkering. Over the years, you found much satisfaction in working with bicycles and, eventually, became the informal bike repair shop for the neighborhood kids and their parents. Even though your responsibilities at your regular job grew, you still spent your happiest hours putting bikes back together.

You never gave much though to the idea of starting your own business though, much less a bike business, until the "get healthy" craze and gasoline prices both began to rise. You saw the trends before most: people once again were taking to the two wheelers. If you were going into a business of your own, you thought, it ought to be the bicycle business. When you caught wind of yet another layoff at the plant, you finally began to consider the idea seriously. Your head, however, told you that you had better think it through completely. Your heart beat faster at the thought of turning your hobby into a bona fide business.

MY BICYCLE SHOPPE
9336
TWO WHEEL DEALS

Your head began to swim as you began to think about the details. Should you make your shop a repair shop, or should you sell new bikes at retail? What about used bikes -- you certainly could get your hands on a lot of them. Where is the best location, anyway? And how much could you really make in the bike business -- where was the money?

Now, imagine that you have a savings account of modest proportions (say $8,000) to start with, and you cannot afford to lose it by starting off on the wrong foot.

STARTING OFF ON THE RIGHT FOOT

Starting off on the right foot means getting the answers to those market research questions we discussed in Chapter 2. And to do this, you know that you have to:

1. Ask the RIGHT questions of the RIGHT people.
2. Read the RIGHT material.
3. Survey the RIGHT customers.
4. Think clearly and cautiously.

So from your own home and on your own time, you set about researching your market.

First, ask the right questions of the right people who have at least part of the answers: You go to those already in the bike business, especially the retailers and wholesalers, and not surprisingly, find that bike sales are climbing and service jobs are up. Also, while there is not a noticeable increase in the number of bicycle shops, department store bike sections have clearly expanded.

Then, do the right reading: At your public library, you pour through back issues of "Bicycle Business News" and learn that today's big bike buyers are people over forty-five and people between the ages of eighteen and twenty-five. In the library's demographic and census materials, you discover that these people are found primarily in suburban areas; although a number of those in the lower age group also live near universities and colleges. You learn that this is true at the large state university a few miles from your home.

In the university's student newspaper, you read that an enrollment increase of nearly seven percent over the next five years is expected. Another article concerns programs aimed at attracting even more of the state's college-bound high school students.

In your city newspaper, you read that several schools that were once closed for lack of enrollment are being reopened. With more kids on the way, you correctly reason there will be the need for more bikes.

Next, survey the right consumers: Some clear thinking of your own tells you that the older folks want to steer clear of cardiac arrest.

Your oldest daughter, who has just begun her first year of college, also sheds some light on the buying habits of the second population group. With part-time employment and summer jobs as scarce as they are, she asks, how many college students have enough left to spend for a car? Not many. But for a good ten-speed? Quite a few. Besides, bicycle transportation for a college student makes good sense: no gasoline prices, no parking problems, no traffic jams, and you can take it almost anywhere -- even up four flights of dormitory stairs and into a room for one.

Add a dash of clear, cautious thinking: At this point, you begin to intensify your research. There is only one bike store in the university area, you discover; and this has been passed down from a father to a son. Casual chats with your daughter and her college chums, as well as a quick personal visit to the store, tell you that the father's out-dated and inefficient business practices have also been passed down. Customers wait weeks for simple repairs to be make; none of the more popular makes of bicycles are stocked; and apparently very little money is spent on advertising. People say the old man is hart to talk to, also -- a sure sign that people are not getting the attention they feel they deserve.

So far, the picture looks promising: there might just be room in the market for a bike shop with your strategy of featuring the latest models, the best repairs -- and QUICK delivery.

There is one dark cloud on the horizon, and it has snow in it. You live in an area where snow is on the ground at least three months of the year. This fact of life will hurt sales during this period of time, although it may be compensated for by more sales later on in the year.

There are several important conclusions that your research has led you to -- all of which seem to say: YOU CAN DO IT -- YOU CAN MAKE MONEY in the bicycle business.

After you are "reasonably sure" that there is a "reasonable chance" of success, you decide that it will be worth it to explore this business concept in more detail by putting some real numbers on paper.

Now you begin to construct your sales forecast for your imaginary bike shop. Basically, it is a process of elimination and decision-making; you need to answer the following questions in the following order:

Are the trends right?
Does the idea seem realistic?
Would it all be worth it if you succeeded?

Who is the customer?

Where is the market?

How big is the market?

How many prospects will actually buy?

How many of the buyers will buy from YOU?

Based on your research, here are the answers for your imaginary bike shop:

The time is right. By all indications, the present social and economic climate is favorable -- not the liveliest the country has ever known, but one well suited to the sale of bicycles. (Remember: a bad time for one industry, like the automobile industry, might just be a good one for another, like bikes.) People young and old want to stay fit, conserve fuel and save money -- and they are finding they can do it all with a bike.

The people are right. Based on a couple of conversations with the bike distributors you've bought parts from, you can conclude that the university area students and young professionals cannot get the prompt repair service that their fast lane lifestyle requires. What's more, they almost always go to those suburban competitors when they buy new bikes. One distributor told you, "The old guy doesn't seem to care about the new stuff. He only sells about six of our bikes per month." You know this distributor is tough to work with, and may just tell you what you want to hear so he can sell you some bikes, too. So, you take his comments with a grain of salt. But he confirms what you have been hearing. The customers could do well, it seems to you, with an alternative bike store close at hand.

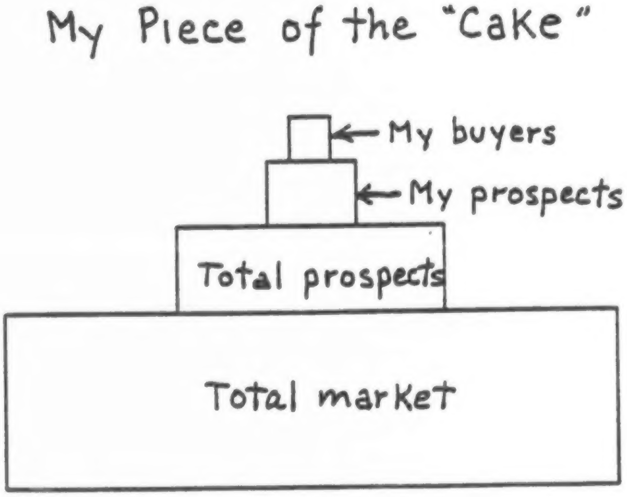
Finally, the icing on the cake. What really makes this picture glow is the hard data you get from your own informal market survey. With the help of your daughter and a couple of her friends, you set up a table on the university's busiest mall for a few hours (with the University's permission, of course -- a marketing instructor was very helpful in setting it up as long as a few of his students could help out and get some experience).

You attract your potential customers with a display of three of the latest models from Peugeot, lent to you from a distributor eager to please you as a potential new retailer. After some "bike talk" around the display table, you make sure that every student leaves with a postage-paid questionnaire in his or her backpack.

About 1,000 people walked by, and 180 stopped to look at the bikes and talk. These, you figure, are the "serious prospects" who are at least thinking about owning a bike in the near future. Of the 180 questionnaires you passed out, 136 are completed and returned within 10 days. (Ten days to two weeks allows enough time for everyong who is going to send them to do it. If you need to, you can raise the response rate by offering a discount coupon for merchandise or service if they cooperate.)

As you began tallying up the questionnaires that came back, you began to "meet" your potential customers. It turns out that 100 of these prospective customers actually live on campus; the rest drive to school from the suburbs. Out of this group of 100, 35 own bikes now. Seventeen bought their bikes new during the last 12 months, but only 9 of those 17 bought their bikes from the crotchety old man and his son.

You are becoming convinced that with a good location, adequate advertising and hard work, you can corner more than half of the area's market -- in other words, 5 of those 9 university area bike buyers. That's your conservative estimate. You really believe that you can probably sell a lot of those kids who go to the suburbs to buy their bikes. And you can probably even convince some people to buy that otherwise wouldn't have just because you're on campus and they see you every day.



But you don't want to get swept away by your own enthusiasm. You settle on 5 as the conservative number of sales you could make out of that original 100 students who lived on campus.

WORKING FOR THE NUMBERS, AND MAKING THE NUMBERS WORK FOR YOU

Now you are ready to translate your research into a sales forecast. Out of 1,000 people who passed by, 180 or 18.0 percent identified themselves as prospective customers because they were interested enough to stop.

This jibes with what you read in "Bicycle Business News" which stated that about 15 percent of the general population is bikers. This "litmus test" of your market test gives you confidence in your research. Had the number been very different, say 7 percent or 70 percent, you would have had to rethink your assumptions and, probably, find another way to get to talk to your customers. You are a little suspicious of the low number of people that appeared to own bikes already -- 35 percent or 3.5 percent of the thousand who went by. But then you remember that many of your potential customers were peddling by on their way to class and were just too pressed for time to stop. You decide to count this group as a "fudge factor" and stick with the group you have "hard" information on because of the questionnaires.

According to the housing office and the university handbook, three out of every five students enrolled at the university lived either on campus or in the immediate vicinity. There is a total enrollment of 25,000; so that gives you a non-commuter, on-campus student market of 15,000. Add to this the 5,000 young professionals who are said to live nearby, and you have a general market population of prospects of 20,000 people.

How many will really Buy?

Your informal survey -- which you have good reason to believe in -- tells you that, theoretically, 18 percent of those 20,000 people like bikes and own or want to own one. 20,000 multiplied by .18 = 3,600 "serious prospects".

How many of these serious prospects will actually buy bikes in a year? And how many will actually buy from you? Based on your research, you calculate that about 17 percent of these 3,600 serious prospects buy new bikes in a 12-month period (17 buyers out of every 100 prospects). You know you can't sell all of them, but you conservatively figured that you could sell 5 out of the 17, or 5 percent (you can also think of it as 5 buyers out of every 100 prospects). 3,600 prospects multiplied by .05 = **180 bikes sold** per year.

Let's now transfer this math into money. You are getting very close to your sales forecast! You are beginning to see what your business could look like!

You figure the average ten-speed bike sells for $350. But that's been marked up from the wholesale price of $200. So, for every bike sold, you'll realize a profit of $150. How many bike sales, once again, do you expect to make? 180, right? You do the multiplication and what do you get? $350 multiplied by 180 = $63,000; and $150 multiplied by 180 = $27,000. In other words, from your first year in business, you get $27,000 in gross profit from sales of $63,000.

Now, what other ways can your bike shop make money? How about those repairs? What about accessories? Based on the industry guidelines that you read about in the trade journals, you figure that for every thousand dollars in new bike sales, you will have $200 in service calls and accessories. Sixty-three (for $63,000 in gross sales) multiplied by 200 equals another $12,600 in revenue per year.

Not bad for a beginner! At least, that's the way it looks right now. Gross profit is the difference between the cost of the goods you sold and your selling price. It does not take into account your overhead costs. We will discuss this relationship a little later in this chapter when we look at budgeting expenses.

NOW COMES THE FORECAST

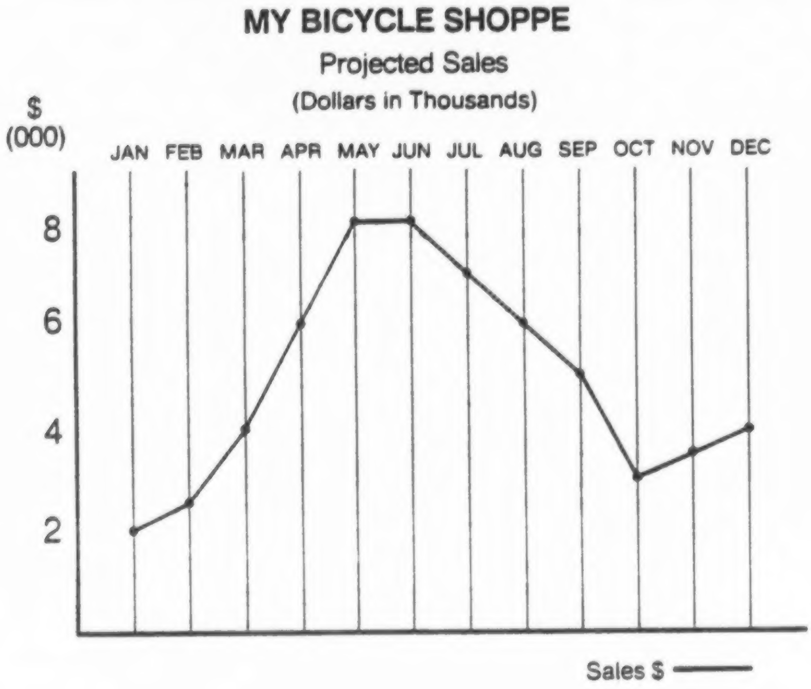
Now comes the crystal-ball part of forecasting. When during the year are you actually going to see the money for those 180 bikes? Now you have to think about all of those variables that can affect sales during the year, including the weather and the competition. What if the weather is great, but the old man gets his act together and starts to advertise like crazy? What difference will that make to your sales?

Sales are sure to be healthy during the spring, for example, with the anticipation of the warmer, bike-riding months of summer in the air. Summer sales should be good, too, although not as high as those during the spring rush. It is during this period, however, that riders get the most use of their bikes, even though school is closed. The greater the use of bikes means more flat tires and other repair jobs. Income from repair jobs, you hope, will see you through to the fall, when the students return eager to spend their summer savings. In this season of falling leaves, you expect to see your profits rise.

Finally, there is no getting around slow sales in winter -- or is there? As it looks now, the winter months will be tough to weather. You will have to keep this in mind during those peak periods of healthy earnings. Instead of buying that new compression pump you may want, it may be wiser to save those peak season profits for the rainy (or snowy) days of the off-season.

It's time now to put your sales forecast for the upcoming year on paper. Using a ruler (neatness is important because you want to be as precise as possible), prepare a grid as shown.

The precise numbers of the sales forecast can be assigned month-by-month to a "spread sheet" like the following:



Congratulations! You have just completed a model sales forecast! You can do this for your real business, too, just by following these simple guidelines:

a. Base your forecast on "hard" information about your ACTUAL prospects.
b. Anticipate changes in your sales levels during the year, taking as many variables as possible into consideration.
c. Be conservative.

One decision you can already make for your imaginary bike business based on your sales forecast is when to open for business. Since winter is so slow, you should put as much of that time behind you as possible. You should probably open just in time to advertise your spring sales and the new models so you can be in the right place, ready and waiting, when the best sales season begins. DO NOT open in the fall unless you have enough cash to carry you through three or four months of overhead expenses without sales. And why would you want to do that anyway?

I PROMISE TO BE HONEST WITH MYSELF !!

BUDGETING YOUR EXPENSES

Money flows in when you sell your bikes or other products or services, and money flows out when you pay your expenses. What stays behind -- the difference between the two -- is your net profit. This is what you are working for: cash to use as you please. This is "new money" that your business has earned for you. You can and should be very proud of this amount.

Of the hard earned $8,000 that you have in your imaginary savings account for your imaginary bike shop, you had better plan on spending most if -- perhaps $6,000 -- before you even open your doors for business. This is typical; you usually have to spend some money and take a financial risk before you take in any money.

There are two kinds of expenses -- variable and fixed.

VARIABLE EXPENSES

Your sales projections are based on how much you sell. Depending on how much you sell, you are going to have variable expenses that are a percentage of your sales revenue. These variable expenses are often referred to as "costs of sales".

Your largest single variable expense, if you are a retailer, will be your **inventory**. Logically, you have to buy something before you can sell it. If you are going to have an inventory in your imaginary bike shop, you have to purchase it from a wholesaler or a distributor. The faster you sell the inventory (called "sell-through") or "turning the inventory"), the faster you get your costs back plus your profits. That's why it's so important to select merchandise that people want to buy.

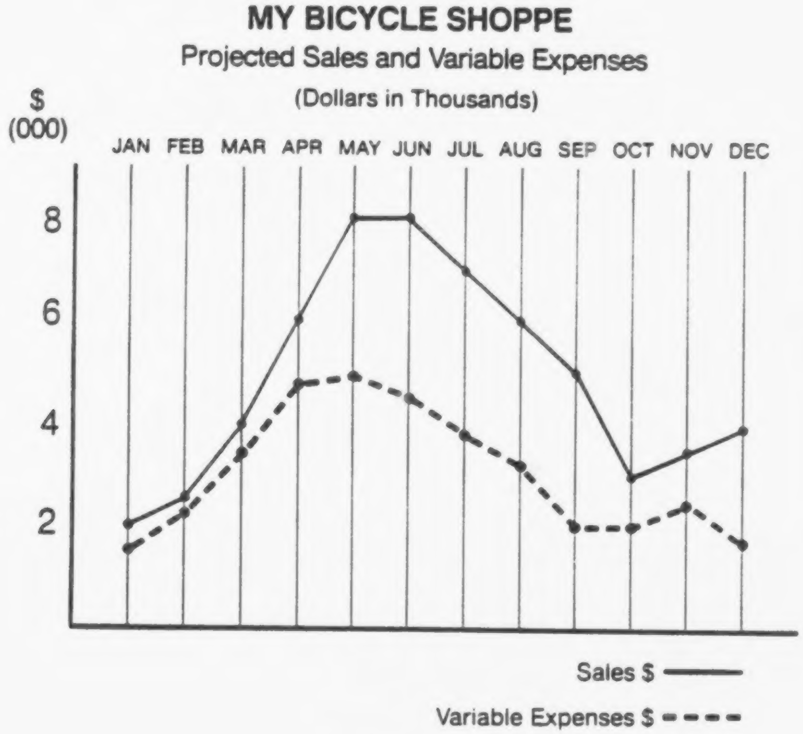
Labor may be your single largest expense if you are in a service business, unless you put all of your employees on salary, in which case they become a fixed expense. Most of the time, small businesses link their personnel needs to the amount of work to be done. As a plumbing contractor moves into his busy season, for example, he hires more plumbers to service all the calls. When the business dies down, the extra help are laid off.

Variable expenses, of course, are not as predictable as fixed ones. But you CAN make good guesses because VARIABLE EXPENSES ARE LINKED DIRECTLY TO SALES. Take an average month's sales and calculate what percentage of the selling price was made up of variable expenses. That percentage is a useful tool in projecting what your expenses will be in the following months. presuming that you meet or come close to your sales projections, you should hit your variable expense estimates very closely as well.

When they are graphed, variable expenses should look similar to the sales forecast curve.

Notice that the variable expenses came due slightly before the money from sales. This is because you usually will have to actually pay for the merchandise (or labor) before you can collect the selling price. The closer these two curves are to each other, the healthier the business is because it has less money sitting idle in the form of 'owned" inventory. Ideally, a small business should buy on credit as far into the future as possible -- say, 60 or 90 days -- and sell it all before the bill comes due.

This is what the spread sheet looks like after the variable expenses are added.

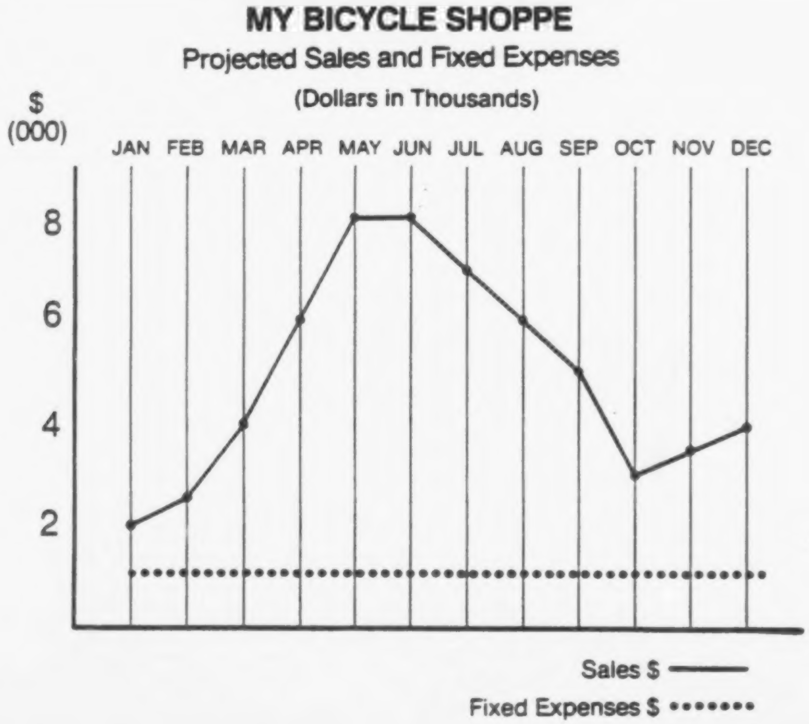


FIXED EXPENSES

As the name suggests, fixed expenses are those that remain fairly steady and predictable. These expenses may rise with the tide of inflation, but they will not fluctuate as your sales will. Nor are they influenced by your volume of sales.

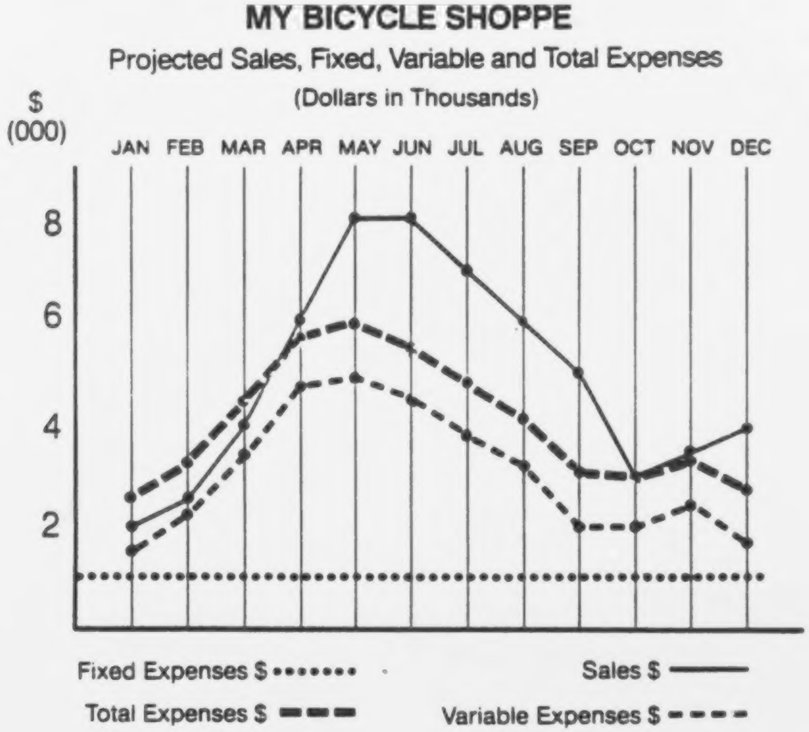
Your fixed expenses are those overhead essentials you need to stay in business. For example, the rent money you pay for that prime corner location (which, you believe, will give you the edge over your side-street competitor) is a fixed expense. In the case of your bike shop, this will cost you, say, $750. Your phone is another fixed expense. So is your salary; although you may want to base that on how strong your sales are. Whether you sell one bike, no bikes, or a hundred, fixed expenses are going to stay the same and HAVE to be paid.

Fixed expenses are very easy to portray visually. All you need is a straight line. This shows up on your forecast or spread sheet like this:



Now we can combine the variable expenses with the fixed expenses to get a clear picture of total expenses.

Here's what this combination of sales and expenses looks like on the spread sheet.



PROJECTING YOUR CASH FLOW

Up to this point, we have discussed the money you expect to make (from your sales) and the money you think you will have to spend (on expenses). To get the most accurate picture of your cash position and your financial health, however, we must link the two together. All those wavy lines add up to a cash flow projection -- a prediction, in fact, of where your money is coming from, where it's going, and what you're left with in the end. On paper, in black and white, where you can read it and understand it, this is called the CASH FLOW STATEMENT. It is, perhaps, the most useful planning tool you will ever have (or need) to monitor the health of your business.

Each month on your spread sheet reflects what you think your Income Statement (also known as a Profit and Loss Statement) will look like for those months in the future. Side by side, they give you a very good idea of what the trends are in your business.

Here's one of the ways to use your forecast: look at the next-to-the-bottom line on the cash flow statement. These are your projected profits (or losses) on a month-by-month basis. By adding them together horizontally and keeping a running total on the last line of the spread sheet, you can tell how far ahead -- or into the hole -- you really are. This is called the Cumulative Total, and is THE REAL bottom line.

Projecting your cash flow in this way would not be of much use to you, however, if you discovered your business was in financial trouble and on the verge of bankruptcy. For this reason, you probably will want to chart the difference between what you THOUGHT would happen (this is your projection) and what will ACTUALLY happen (these would be your actual sales and expense figures as they occur).

This can be done using a form similar to the one below as a kind of early warning system. Each month you can see at a glance what your actual sales, expenses and cash position are, compared to what you thought they would be.

MY BICYCLE SHOPPE

Actual Versus Projected Cash Flow
Month of February and Year-To-Date

	Month of February			Y-T-D		
	Actual	**Forecast**	**Diff.+/−**	**Actual**	**Forecast**	**Diff.+/−**
Beg. Cash Bal.	$4.2	$4.5	$−.3	$5.0	$5.0	$ —
Plus						
Sales	2.7	2.5	+.2	4.3	4.5	−.2
Less						
Var. Exp.	2.3	2.2	−.1	3.7	3.7	—
Fixed Exp.	1.0	1.0	—	2.0	2.0	—
Total Exp.	3.3	3.2	−.1	5.7	5.7	—
Net Profit/(Loss)	(.6)	(.7)	+.1	(1.4)	(1.2)	−.2
Ending Cash Bal.	$3.6	$3.8	$−.2	$3.6	$3.8	$−.2

The first set of three columns shows the current month, and the second set shows the year-to-date figures. The first column, called "actual", is how you actually did. The second column, "forecast", is your earlier estimate of how sales and expenses would go. The third column, "difference", is just what it says - the difference between what you did and what you thought you would do. It could show the difference in terms of dollars or percentages.

By preparing and evaluating comparisons each month, you'll be able to detect problems before they get out of hand. The third column tells you how accurate and/or realistic your projections are. And, hopefully, you'll get better and better each month at forecasting the future.

Forewarned is forearmed. And preplanning, based on what your forecasts reflect, will go a long way toward keeping you out of trouble.

For example, imagine that in five years your bicycle business has grown to the point where you have four full-time employees on the payroll. Not surprisingly, your cash flow chart has grown considerably, too. Now, you have three lines for repair supplies alone. One of these is reserved for expenses involved in purchasing tire patching kits. Since your time is now almost always spent in the back room with the books of the business, these particular expenses come to you from the employee responsible for such purchase. Three months into the new year, you realize (by comparing "Actuals" with "Estimates", the third column shows "+100%") that you are spending twice as much each month for patching kits as you thought you would.

This would not be a problem if these unexpected expenses were offset by unusually high sales in the area of patching kit sales. You check and see that this is not the case. You have a problem: your business is leaking cash and the leak must be patched as quickly as it is discovered. Now you can ask the right person some straightforward questions, such as: "Have you switched to a different wholesaler? Are you purchasing a more expensive kit? Has the price of patching kits increased since last year? WHY are we spending MORE on flat tire patching kits than I PROJECTED we would?" If there is a good reason, you can change your projections -- and the rest of your plans -- accordingly to accommodate the new information. If there isn't a good explanation, you can nip the problem before it gets out of control and does real damage.

Your cash flow statement can be as long or as short as you wish to make it. You may choose, for example, not to list every item you stock separately, but group them together in categories instead.

A detailed cash flow statement for you, the corner bike seller, would look something like this:

MY BICYCLE SHOPPE

Projected Cash Flow Statement
(Thousands of Dollars)

	J	F	M	A	M	J	J	A	S	O	N	D
Beg. Cash Bal.	5.0	4.5	3.8	3.4	3.8	6.0	8.7	11.0	12.9	14.9	14.9	15.0
Plus												
Sales	2.0	2.5	4.0	6.0	8.0	8.0	7.0	6.0	5.0	3.0	3.5	4.0
Less												
Var. Exp.	1.5	2.2	3.4	4.6	4.8	4.3	3.7	3.1	2.0	2.0	2.4	1.6
Fixed Exp.	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total Exp.	2.5	3.2	4.4	5.6	5.8	5.3	4.7	4.1	3.0	3.0	3.4	2.6
Net Profit/(Loss)	(.5)	(.7)	(.4)	.4	2.2	2.7	2.3	1.9	2.0	—	.1	1.4
End. Cash Bal.	4.5	3.8	3.4	3.8	6.0	8.7	11.0	12.9	14.9	14.9	15.0	16.4

SUMMARY: A FEW CLOSING WORDS ABOUT BUDGETS

Whether it is for a complex business or for a family of four, there is really no mystery to it. A budget is not money itself, but it is about money. A budget is a lot of whether-or-nots. For you, the bicycle businessman, it is whether or not you will be able to buy that new compression pump, whether or not you will be able to put the neighbor boy on your payroll for the summer, whether or not you can open a branch store, whether or not you can pay off a debt (or take out another bank loan), whether or not you can take a vacation this year -- or give yourself a raise. Your budget is the financial well-being (or ill health) of your business. And your cash flow statement is none other than the visual representation, on paper in black and white, of your budget.

A budget is no longer a luxury, if ever it was. For businesses, large or small, it is a necessity.

Now you are prepared. Your forecast is your budget. You can run your future business by getting yourself "on plan" or "on budget" today. If you aren't on budget, your forecasts tell you where to make the changes. What's out of balance? If one "actual" is significantly higher than the "projected", your objective should be clear: do what you have to do to lower it.

There are those owners of small businesses who have very little to say about budgets, and there are those who do not even have them. But they are hard to find. There are many, on the other hand, who could probably talk your ears off about the merits of a budget. These merits, for your purposes, can be reduced to the following four.

1. A budget PRESENTS YOU WITH A DEFINITE BUSINESS OBJECTIVE. It gives you an idea of where you are headed financially -- and of how much or how little you have to get you there.

2. It ACTS AS A SAFETY SIGNAL. If there is trouble ahead because your buyer is spending too much for a new kind of flat tire patching kit, you will know about it far enough in advance to do something about it.

3. It PLACES RESPONSIBILITY. If there is a problem, you will know where to place the blame. Similarly, if you find you are making more money than you expected, then you will know who gets the pat on the back.

4. A budget HELPS YOU PREVENT WASTE. More than any other tool you have at your disposal, your budget tells you where you are paying too much or getting too little.

Sales forecasts, cash flow statements, and budgets will keep you moving steadily toward your long-term success. They keep both of your feet firmly planted in reality. In the realm of sales forecasts, cash flow statements, and budgets, what you don't know can put you out of business. But if you plan with good projections, you can succeed even faster.

CHAPTER 4

Where to locate your business

Your site can save you

Selecting the best location for your business is one of the most important decisions you will ever make. Where you choose to run your business will affect your sales, operating hours, overhead costs, advertising, availability of good employees, volume of customer traffic and many other considerations that have a direct impact on your profitability.

Successful retail store owners are especially careful about where they locate their businesses. When asked to name the three most important factors that contributed to their success, most will tell you; "Location, location and location."

Finding the best location for your business is important to non-retailers, too. For example, if you are planning to have a manufacturing company, it may be most important for you to locate near your sources of supply or near your customers. Or, it may be the type of business that requires large tractor-trailer pickups and deliveries. If this is the case, you have to be sure that these large vehicles are allowed in the area where you locate.

Or, if you go into a service business such as insurance or advertising, you may want to be in a location that presents a SUCCESSFUL PICTURE simply from its surroundings.

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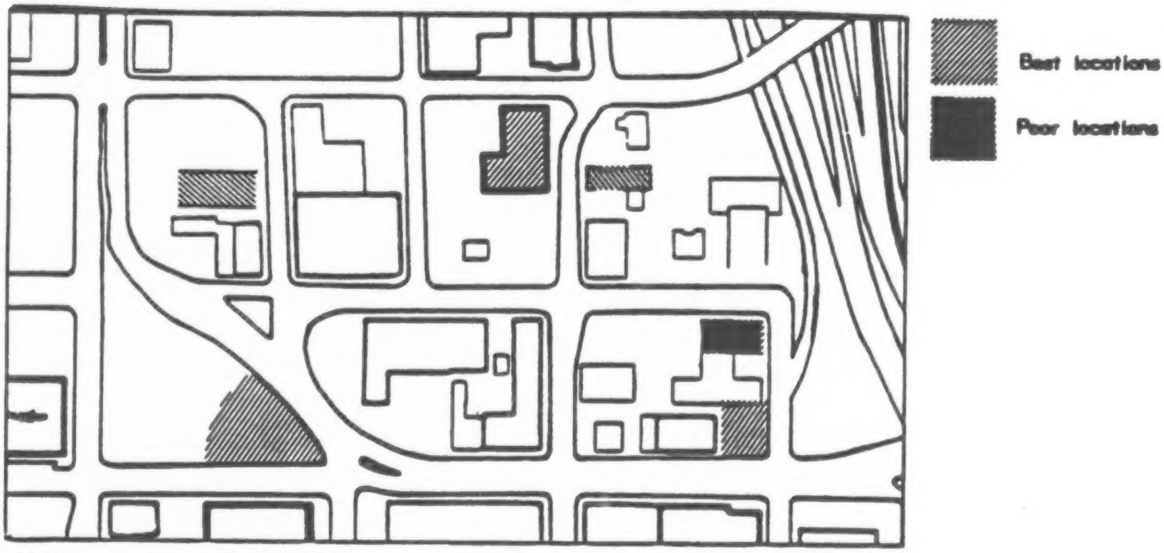


Notice that, generally, the best locations are the most accessible.

The poor location is actually behind a freeway exit ramp,

However, it may be that you will not be in a position to select the best possible site for your business. For example:

1. You operate your business from your home: Frequently when starting a small business, one begins in his own home. This is done in order to save money or save time.

2. There may be a pre-existing location of a business: When a business is purchased, its location is often already determined. It may or may not be the best location.

3. You may have limited alternatives: Often when one starts a small business, it is necessary to select a location which is "less than the best". This may be due to any number of factors, including cost and lack of space.

Should your business fall into one of the above three examples, this chapter will **still be most helpful** since regardless of your business location, you will still have to know the answers to such questions as:

- Who is my competition?
- Where are they located?
- Who are my customers?
- What services do they want?

In this chapter, you will learn how to think about your business in several different ways, not only from your perspective, but from that of your potential customers as well. You will learn how to choose the best location for your business or make the most of the business site you have now.

How Important Is Your Location To Your Customers?

The horse-drawn carriage makers went out of business early in this century because they forgot what their **real** business was. It wasn't making carriages, although that's what they sold. Their real business was **transportation** -- moving people from one place to another. If they had remembered that their customers depended upon them to get from here to there, they would have found something else to sell to meet that need. They forgot what was most important to their customers. As it happened, their customers moved on without them. Their customers found that automobiles and streetcars and trains gave them what they needed more conveniently and at a better price. Before you could say, "Going out of business sale," the market for horse-drawn carriages virtually disappeared.

This evolution of the market is Progress with a capital P. The strength of any business is its ability to meet the needs of its customers. The needs of customers are constantly changing, a fortunate fact of the marketplace that continually creates new opportunities for customer-oriented and future-oriented entrepreneurs.

We have already discussed how to identify new customer needs and new business opportunities; now, as you begin planning to implement your ideas, REMEMBER YOUR CUSTOMER. Now is not the time to fall in love with a store location because it's near your favorite shopping center; nor is this the time to satisfy your ego with an overpriced, trendy office complex address just to impress your friends.

Think about what is really important to your customers, and you will have the most important key to your business location.

MENU OF CUSTOMER NEEDS
For a Retail Plumbing Service

These are the needs that must be met to attract and keep customers. These needs will be different for every type of business. In order to write their needs down like this, you must think about and understand what your customers' want. This will help you meet their needs.

The Customers Want:	**So You:**
-- A business nearby (many plumbers charge by the mile)	Find the greatest density of single-family homes, and then locate near the center of that area
-- Quick response time (when a basement is flooded, the customer wants FAST action)	Buy enough trucks to begin with and equip all company trucks with 2-way radios
-- Good phone service	Install enough phone lines to avoid busy signals, and train your people to give quotes, practical suggestions and courteous service
-- 24-hour service	Set up a phone-answering system to handle calls day or night
-- Honest, dependable service	Write in your Yellow Page ad exactly what you can do in order to avoid disappointments

Ask yourself: Why will or why do my customers come to buy from me? Is it for convenience, or perhaps because I am near their homes or a major thoroughfare? Is it because I can fill their orders faster and ship the same day? Is it because I deliver? Is it because they can walk in on their lunch hour? Is it my quality, and if so, are my customers so loyal that they will drive 10 miles out of their way to buy from me? Do a little careful research on your own and ask your existing customers or prospective customers why they buy from you. Listen carefully for patterns in their responses.

Once you have a clear idea of what's important to your customers, you will be able to identify what is important in the selection of your business site. Do you have to be close to inexpensive labor and perhaps a bus line to continue beating your competition's prices? Do you need to be close to the airport for quick shipments? Do you need to be conveniently located in a luxurious shopping center and "bring your store to your customer"? Even if you are in the direct mail business or other business which theoretically can be run from anywhere, your rent or lease costs will affect your selling prices.

No matter what business you are in, business location will be important. **You must plan to meet your customer's needs now and in the future.** In order to illustrate some of the specific considerations in site location, we will use hypothetical retail stores and restaurants throughout the balance of this chapter.

* * *

Once you clearly determine the direction you want your business to take and what is most important to your customers, you are ready to actually begin exploring your market.

Where To Start Your Search

You can begin your search for the best site in your local library. By using local maps and reference materials, you can save a lot of time and discover what trends will affect potential sites. The reference materials you will need are: current data from the latest census (the last national census was held in 1980; some cities conduct their own population surveys and business surveys more often) and local statistical information. Your librarian is trained to assist you in finding the best information for your community.

Another source for maps and statistical information is a local real estate firm. These folks know their territory. Not only will a good agent be able to describe the not-so-obvious characteristics about a neighborhood, but they may also know where the good business locations are.

Local banks also maintain good information about a community. The business they are in is PROVIDING SERVICE TO BUSINESSES AND INDIVIDUALS OR PEOPLE. Therefore, they usually keep good up-to-date information on both population and business trends for their area.

Chambers of Commerce or local business organizations know what businesses are in town. They also know about new businesses which are planning to move into an area or established ones moving out. They probably can help you estimate how much business you may expect to do, particularly if there is -- or was -- a similar business in the area.

Still another source of good information is your local newspaper. The local paper makes it their business to know about your city. Talk to an editor about changes in the community. The Advertising Sales Managers are often the best source of good business information since they they are "out on the street" every day.

Finally, there are State and County offices. Often these offices maintain an incredible amount of census and trend information about communities.

When searching out information for SITE LOCATION, there are TWO KEY CONCEPTS TO KEEP IN MIND:

--First, it is best to locate your business near your potential customers. Most retail businesses draw most of their customers from a predictable **trade area** around their location. Within this trade area, you must find your customers. Each type of business has a different size trade area. By knowing what size trade area your type of business generally has, you can draw a circle on a map of the city around each site you are considering in order to see where you will have to find your customers. It is the "convenience factor" that determines the size of your primary trade area. Popular businesses, such as neighborhood restaurants and gas stations, draw most of their business from trade areas as small as one-half mile around them. Shopping centers can draw from a 35-mile radius. Trade areas don't have to be just geographical circles, however. You will attract customers from many miles away if your location is on a major thoroughfare, visible from a freeway, or close to a large office complex or university. You must be satisfied that you have made it as easy as possible for your customers to buy from you by locating yourself near them in a place that is easy to find.

--Second, think like your prospective customer. Forget your personal preferences. You have to please your customers, now and in the future, in order to make the most of your venture. This will call for some tough decisions on your part, and you must resist the favorite locations of your friends and family if such locations are not the best for your business. The most common reason people give for locating their store is that they "noticed a vacancy". Don't do it -- most of these peole go out of business within a few years! The stakes are too high when it comes to selecting your location, so don't take the first nice place you come across.

With these concepts in mind, let's look at the criteria you should use when researching a location:

CRITERIA #1: POPULATION

You must identify your customers in order to satisfy them. Remember that you are carving a niche for yourself in the market, and you have to know what kind of community you're getting into. You'll want to know the following information about prospective trade areas. Depending upon your business, these factors will have important effects on the success of your business.

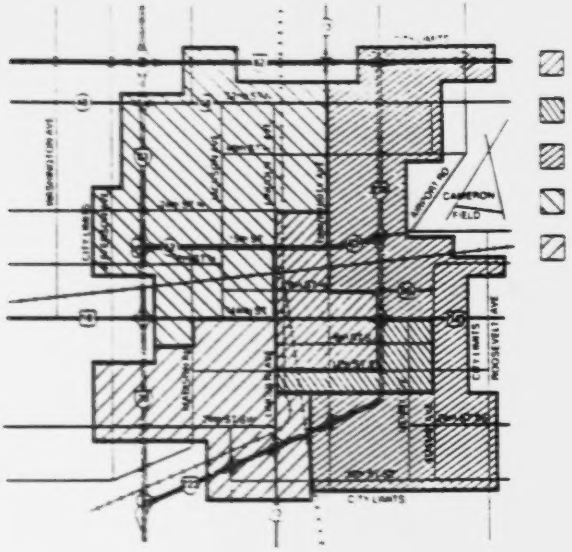
Here are the most important population characteristics to consider:

1. **Cultural Characteristics**

    a. **Ethnic characteristics,** including the predominant racial profiles of the neighborhoods. There may be certain products more popular with one particular racial group than another. For example, a restaurant specializing in Mexican food could be more successful if located in or near a Hispanic neighborhood.

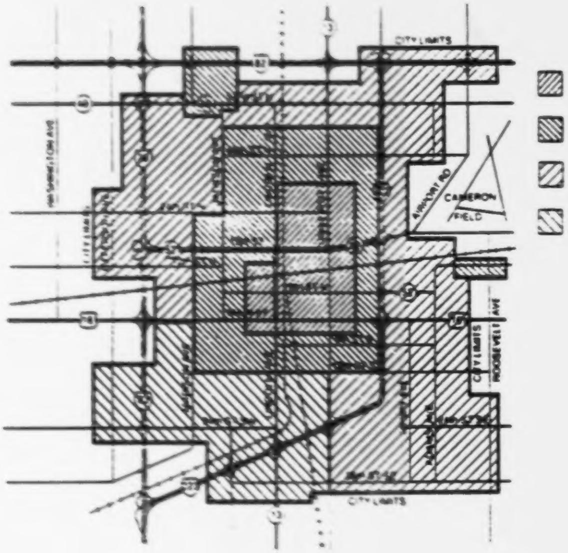
    b. **Religious characteristics,** particularly in communities where certain faiths are highly visible. A delicatessen with Jewish-style food would probably do quite well near a synagogue.

    c. **National origin,** particularly those of recent immigration such as Chinese, Vietnamese and Indian. What do these new Americans need? What products or services do they need?


CITY LIMITS
CAMERON
FIELD
AIRPORT RD
ROOSEVELT AVE
CITY LIMITS
WASHINGTON AVE

Get a map of your city or your trading area. Make several copies of it. On one copy divide the area into neighborhoods which are predominately a certain cultural group (race, national origin, religion). Your final map may be much simpler or more complex than our example shown here.

2. **Income characteristics,** including average household income. This often reflects the average educational level, too. A trendy, high-fashion boutique with expensive clothes should be located near the prospective customers who can afford to pay more for their clothes.Likewise, a store selling work clothes and uniforms would do better in an area with a lower income level, assuming that blue-collar workers have a greater need for these types of clothes.

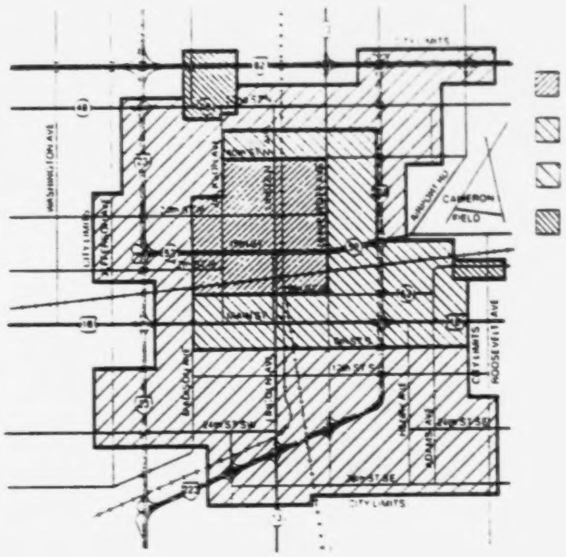

CITY LIMITS
CAMERON
FIELD
AIRPORT RD
ROOSEVELT AVE
CITY LIMITS
WASHINGTON AVE

Income levels are extremely important to plot on a map of your trading area. Using another copy of your map, divide the area into several different income levels. Then refer to this map when you locate among the families you think represent the best potential. Use your map later if you plan to make mailings into the area.

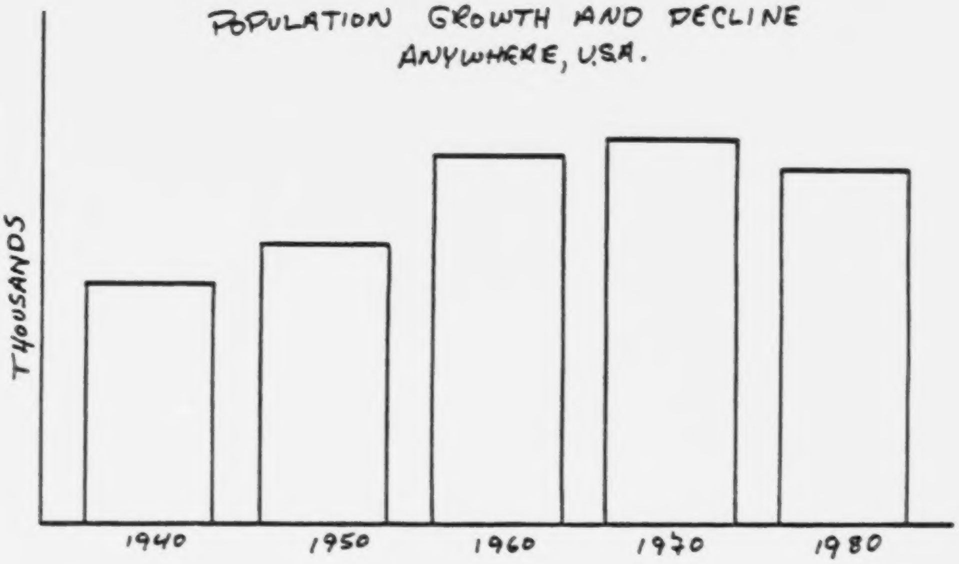
3. **Vocational characteristics,** including type of work and any large employers in the area. Do you want customers in your trade area to be predominantly white-collar workers or blue-collar workers? How important is this factor to your business? It is a well-established fact in the liquor business that saloons in blue-collar neighborhoods sell more beer than wine or mixed drinks. Similarly, if you plan to sell personal computers in a retail store, you should locate the store in a community or neighborhood where the prospective customers have experience with computers at work. Ideally, they would also have professional interests and "sophisticated" hobbies (like astronomy or ham radios) that would help justify such a purchase.

4. **Age characteristics** are important because different ages have different buying patterns. If most of the residents around your store have young families, they are going to be buying the toys, home repair tools and yard equipment associated with starting a home. Older residents don't have the same needs -- they are spending their money on the finer things in life that they postponed purchasing while they raised their families. Expensive cars and travel tickets are more suitable for this kind of neighborhood.

What other characteristics are important to your business? Age of housing? Vocational or educational factors? Age of families? Age and make of cars owned? Property ownership? Usually, whatever information you need is available somewhere. A third map showing this information for your area will be most helpful.



5. **Mobility characteristics,** or the likelihood that prospective customers will travel outside the trade area to make purchases. In an area with a high density of senior citizen high rises, it may be wise to have a delivery service if you run a convenience store. In less populated areas, the car is king and people don't seem to mind traveling greater distances to shop. In the heavily populated areas, public transportation is much more available and commercial areas are closer together, so people are less likely to travel. Generally, in the metropolitan areas throughout the country, customers in the suburbs are more likely to drive than those in the city.



Your research into population information will help you answer questions like the following about your potential customers:

-- How many persons or families are in the trading area and how has this changed over time? Is the area growing in population or declining?

-- Where do they work? What do they do for a living?

-- How much money does the average household earn per year?

-- How many young people are there? How many old people are there?

-- How many families are there? How many have young people or small children?

-- How many one-person households are there?

-- How many single-family homes are there? Apartments? Condominiums?

-- How many families own their own homes? How many rent?

-- What is the value of the homes? What is the average monthly rent?

-- How many of the families own automobiles? How many own two?

-- How many other businesses are located in the trading area? What types of businesses are they? Will they attract potential customers to you?

We have already discussed that you find information on population characteristics from your:

1. Local library

2. City or town hall

3. Real Estate firms and banks

4. Chamber of Commerce

5. Business organizations

6. Local newspaper

Much of their information is taken directly from the CENSUS OF POPULATION AND HOUSING conducted by the U.S. Department of Commerce, Bureau of the Census.

CENSUS OF POPULATION AND HOUSING

Every ten years, the BUREAU OF CENSUS takes a census or count of almost all Americans. This census is taken in every county in all fifty states. The most recent Census was completed in 1980.

Statistical information is gathered about every person in two broad categories:

POPULATION - questions are asked about sex, race, age, marital status, ancestry, children, occupation and vocation training.

HOUSING - questions are asked about numbers of rooms, value of the home, ownership of telephone, air conditioning, television, dishwasher, clothes washer and dryer, plus the number of autos and vans.

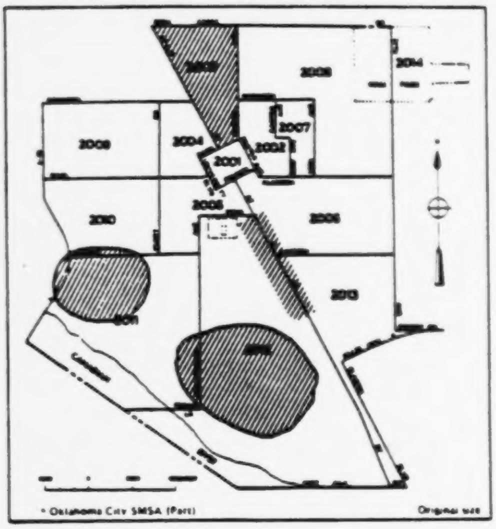
The following list is a complete breakdown of the statistical information obtained for each of the different items found in the above two categories:

Item # on 1980 Questionnaire	Population Items
1.	Name
2.	Household Relationship
3.	Sex
4.	Race
5.	Age
6.	Marital Status
7.	Spanish Origin
8.	School enrollment and type
9. 10.	Years of school completed
11.	Place of birth
12a.	Citizenship
12b.	Year of immigration
13a.-c.	Current language and ability to speak English
14.	Ancestry
15.	Residence 5 years ago
16.	Age screening questions (items 17-33 are limited to persons 15 years old and over
17.	Activity 5 years ago
18.	Veterans status and period of service
19a.-b.	Work disability
19c.	Public transportation disability
20.	Children ever born
21.	Marital history
22.25.26	Employment status
22.	Hours worked last week
23.	Place of work.
24a.	Travel time to work
24b.	Means of transportation to work
24c.-d.	Carpooling
27.	Year last worked
28.	Industry
29.	Occupation
30.	Class of worker
31b.	Weeks worked last year
31c.	Hours usually worked per week last year
31d.	Weeks unemployed last year
32. 33.	Income, by type
Derived	Family size and household size
Derived	Family type and household type
Derived	Poverty status
Derived	Type of group quarters
Derived	Spanish surname
Derived	Spanish heritage
Derived	Foreign stock
Derived	Mother tongue
	Birthplace of parents
	Vocational training
	Industry and occupation 5 years ago
	Duration of disability

Item # on 1980 Questionnaire	Housing Items
H1.to H3.	Coverage questions
H4.	Number of living quarters at address
H5.	Access to Unit
H6.	Complete plumbing facilities
H7.	Number of rooms
H8.	Tenure
H9.	Condominium identification
H10.	Acreage and commercial establishments
H11.	Value
H12.	Contract rent
C1. C2.	Vacancy status
C3.	Boarded-up status
D.	Duration of vacancy
H13.	Units in structure
H14a.-b.	Stories in structure and presence of elevator
H15.	Farm status
H16. H17.	Source of water and sewage disposal
H18.	Year structure built
H19.	Year householder moved into unit
H20.	Heating equipment.
H21a.-c.	Fuels used for house heating, water heating and cooking
H22a.-d.	Cost of utilities and fuels (component of gross rent and selected monthly owner costs)
H23.	Complete kitchen facilities
H24.	Bedrooms
H25.	Bathrooms
H26.	Telephone
H27.	Air conditioning
H28.	Automobiles available
H29.	Vans or light trucks available
H30. to H32.	Selected shelter costs for homeowners
Derived	Persons in unit (household size)
Derived	Persons per room
Derived	Gross rent
Derived	Selected monthly owner costs
	Basement
	Clothes washing machine
	Clothes dryer
	Dishwasher
	Home food freezer
	Television
	Battery radio
	Second home

Different types of businesses have different types of trade areas, shown here as shaded areas.

Part of a Census Tract Outline Map*

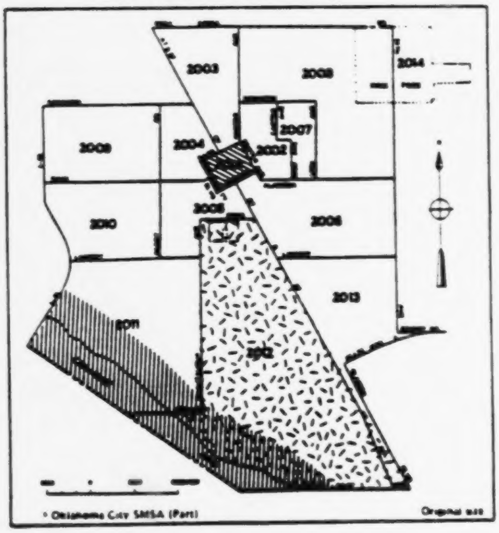

2003
2008
2014
2009
2004
2007
2001
2002
2010
2005
2006
2013
2011
2012

* Oklahoma City SMSA (Part)

Original size

Using the information from the Census Tracts, you can construct profiles of your market area. Depending upon what is important to you, your map can show income, cultural neighborhoods or types of housing.

Part of a Census Tract Outline Map*


2003
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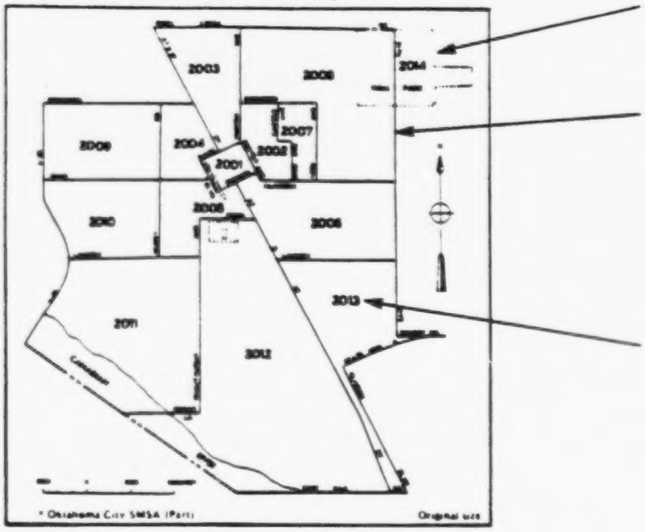

Boundary which is not a tract

Census Tract County Division

Census Tract Number,
used when ordering information

* Oklahoma City SMSA (Part)

Original size

Shown above is an example of a census tract outline map for part of the Oklahoma City Metropolitan area. Each numbered area represents a census tract.

All the answers to questions in the Census were then tabulated. In turn, the same information was compiled for the entire country, and then broken down by:

State
County
Metropolitan Area
Census Tract

The census tract is the smallest geographic area for which the statistics are published.

Illustrated on page 18 is a portion of the published Census data for one county. The Census Bureau derived this data by combining the information from each census tract in the county. You will notice the detail for persons living in Roseau County. You can see that there are 12,574 persons and all live in rural communities or farms. Looking at item 3, you will note that these persons live in 4,331 households. Further, look down item 10 and you will see that there were 131 females and 136 males age 17 on the day of the survey.

Let's look at a simple example of how you might use the Census information on Roseau County. Suppose you are considering starting a hardware store. If the average household spends $105 a year on hardware supplies (this figure was obtained from the National Association of Hardware Retailers), you can estimate the size of your market by simply multiplying households by average expenditure for hardware items times the percent of total business you expect at your location.

EXAMPLE OF CALCULATION:

4331	X	$105.00	X	30%	=	$136,427
No. of households		average yearly hardware purchase per household		estimated market share		estimated sales

1980 Census Data (MN Analysis and Planning Systems)

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          1980 CENSUS DATA (SUMMARY TAPE FILE 1)                                        MINNESOTA ANALYSIS AND PLANNING SYSTEMS
                                              PAGE 1 OF 2 . POPULATION AND HOUSEHOLD ITEMS
:.....................................................................................................................................:
:  SUMMARY LEVEL = 11      SUMMARY TYPE - COUNTY          AREA NAME : ROSEAU COUNTY                                                   :
:.....................................................................................................................................:
: 1 COUNT OF                   : 6 PERSONS BY          : 11 MEDIAN AGE OF     : 2 COUNT OF                 : 34 MEDIAN NUMBER OF PERSONS PER :
:   ALL PERSONS                :   GENDER              :    PERSONS BY        :   FAMILIES                 :    OCCUPIED HOUSING UNIT        :
:                              :                       :    GENDER            :                      3325  :                            2.43 :
:   TOTAL              12574   :                       :                      :..............................................................:
:   URBAN                  0   :                       :    TOTAL      30.3   : 3 COUNT OF                 : 35 MEAN NUMBER OF PERSONS PER   :
:   URBAN FRINGE           0   :   FEMALE      6101    :    FEMALE     30.8   :   HOUSEHOLDS               :    OCCUPIED HOUSING UNIT        :
:   RURAL              12574   :   MALE        6473    :    MALE       29.9   :                      4331  :                            2.85 :
:.....................................................................................................................................:
: 10 POPULATION BY             : 7 PERSONS BY                : 14 PERSONS 15 YEARS AND OVER  : HOUSEHOLDS BY PERSONS AND TYPE                :
:    AGE AND GENDER            :   RACE                      :     BY MARITAL STATUS         :                                               :
:                              :                             :                               :                         (21) WITH  (22) WITH  :
:            FEMALE     MALE   :   WHITE             12451   :               FEMALE    MALE  :                         PERSON(S)  PERSON(S)  :
: UNDER 1      106       107   :   BLACK                 1   : SINGLE         777     1456   :                        60 OR OVER 65 OR OVER  :
:   1-2        223       243   :   AM INDIAN, ETC            : NOW MARRIED   3041     3037   : 1 PERSON                    575        499    :
:   3-4        196       197   :     INDIAN             86   : SEPARATED       30       21   : 2 OR MORE PERSONS:                            :
:    5          89       108   :     ESKIMO              0   : WIDOWED        597      153   :   FAMILY HOUSEHOLD         1028        768    :
:    6          78       108   :     ALEUT               0   : DIVORCED       118      122   :   NONFAMILY HOUSEHOLD        16         13    :
:   7-9        311       338   :     TOTAL              86   :...............................................................................:
:  10-13       408       452   :   ASIAN, PAC ISLANDER       : 16 HOUSEHOLDS BY PERSONS,TYPE : 17 PERSONS UNDER 18 BY HOUSEHOLD              :
:   14         125       131   :     JAPANESE            0   : 1 PERSON:                     :     TYPE AND RELATIONSHIP                     :
:   15         124       130   :     CHINESE             4   :  FEMALE HOUSEHOLDER      496  :     IN HOUSEHOLD:                             :
:   16          95       107   :     FILIPINO            6   :  MALE HOUSEHOLDER        419  :        HOUSEHOLDER OR SPOUSE             11   :
:   17         131       136   :     KOREAN              5   : 2 OR MORE PERSONS:            :        CHILD OF HOUSEHOLDER:                  :
:   18         107       118   :     INDIAN              3   :  MARR. COUPLE FAMILY     2959 :           IN MARR. COUPLE FAMILY       3465   :
:   19          91        94   :     VIETNAMESE          0   :  OTHER FAMILY:                :           IN OTHER FAMILY               290   :
:   20          94        97   :     HAWAIIAN            0   :   FEMALE HOUSEHOLDER     209  :        OTHER RELATIVE                   117   :
:   21          91        90   :     GUAMANIAN           0   :   MALE HOUSEHOLDER       157  :        NONRELATIVE                       38   :
:  22-24       291       297   :     SAMOAN              0   :  NONFAMILY HOUSEHOLD:         :     IN GROUP QUARTERS:                        :
:  25-29       429       491   :     TOTAL              18   :   FEMALE HOUSEHOLDER      37  :        INMATE                            24   :
:  30-34       379       412   :   OTHER                18   :   MALE HOUSEHOLDER        54  :        OTHER                              0   :
:  35-44       645       673   :..............................................................................................................:
:  45-54       554       554   : 9 PERSONS OF SPANISH        : 8 PERSONS OF SPANISH  : 19 HOUSEHOLDS WITH          : 18 RELATED CHILDREN       :
:  55-59       308       332   :   ORIGIN BY RACE            :   ORIGIN BY ETHNICITY : PERSON(S) UNDER 18          :     BY AGE                :
:  60-61       119       124   :                             :                       :     BY TYPE                 : UNDER 5 YRS        1067   :
:  62-64       172       185   :   WHITE                20   : MEXICAN            9  : MARR. COUPLE FAM     1625   : 5 TO 17 YRS        2809   :
:  65-74       526       579   :   BLACK                 0   : PUERTO RICAN       1  : OTHER FAMILY:               :...........................:
:  75-84       314       273   :   AM INDIAN, ASIAN OR       : CUBAN              1  :  FEMALE HSHLDER       124   : 24 HOUSEHOLDS WITH        :
:   85+         93        97   :   PAC ISLANDER          0   : OTHER SPANISH     11  :  MALE HSHLDER          46   :     NONRELATIVES          :
:  TOTAL      6101      6473   :   OTHER                 2   : TOTAL SPANISH     22  : NONFAMILY              13   :     PRESENT          149  :
:.....................................................................................................................................:
: 12 POPULATION BY AGE AND RACE                      : POPULATION BY HOUSEHOLD          : 27 HOUSING UNITS BY    : 28 SPANISH               :
:                                                    : TYPE AND RELATIONSHIP            :    RACE AND TENURE     :    HOUSEHOLDER UNITS     :
:          UNDER 5     5-17     18-64       65+      :                          (20)    :     OWNER     RENTER   :    BY RACE AND TENURE    :
: WHITE      1061      2820      6696      1874      :                  (15)  PERSONS   :   OCCUPIED OCCUPIED    :                          :
: BLACK        -1        -1        -1        -1      :                 TOTAL      65+   : WHITE   3583      727  :      OWNER     RENTER    :
: INDIAN        9        33        36         8      : IN FAMILY HOUSEHOLD:             : BLACK      0        0  :    OCCUPIED OCCUPIED     :
: ASIAN         1         9         8         0      :  HOUSEHOLDER      3325      674  : INDIAN    14        4  : WHITE      5          0  :
: OTHER        -1        -1        -1        -1      :  SPOUSE           2959      385  : ASIAN     -1       -1  : BLACK      0          0  :
: TOTAL      1074      2871      6747      1882      :  OTHER RELATIVE   4884      131  : OTHER     -1       -1  : OTHER      0          0  :
:....................................................:  NONRELATIVE        79        5  :..................................................:
: 13 POPULATION OF SPANISH                           : IN NONFAMILY HOUSEHOLD:          : 23  HOUSING UNITS WITH PERSON(S) 65+ BY AGE       :
:     ORIGIN BY AGE AND RACE                         :  FEMALE HSHLD      533      333  :     OF HOUSEHOLDER AND TENURE      AGE OF         :
:          UNDER 5     5-17     18-64       65+      :  MALE HSHLD        473      178  :                                 HOUSEHOLDER      :
: WHITE        -1        -1        -1        -1      :  NONRELATIVE       107       10  :                              UNDER 65      65+   :
: BLACK         0         0         0         0      : IN GROUP QUARTERS:               : TOTAL                              95     1185   :
: OTHER        -1        -1        -1        -1      :  INMATE            214      188  : OWNER OCCUPIED                     86      960   :
: TOTAL         3         7        11         1      :  OTHER               0        0  : RENTER OCCUPIED                     9      225   :
:.....................................................................................................................................:
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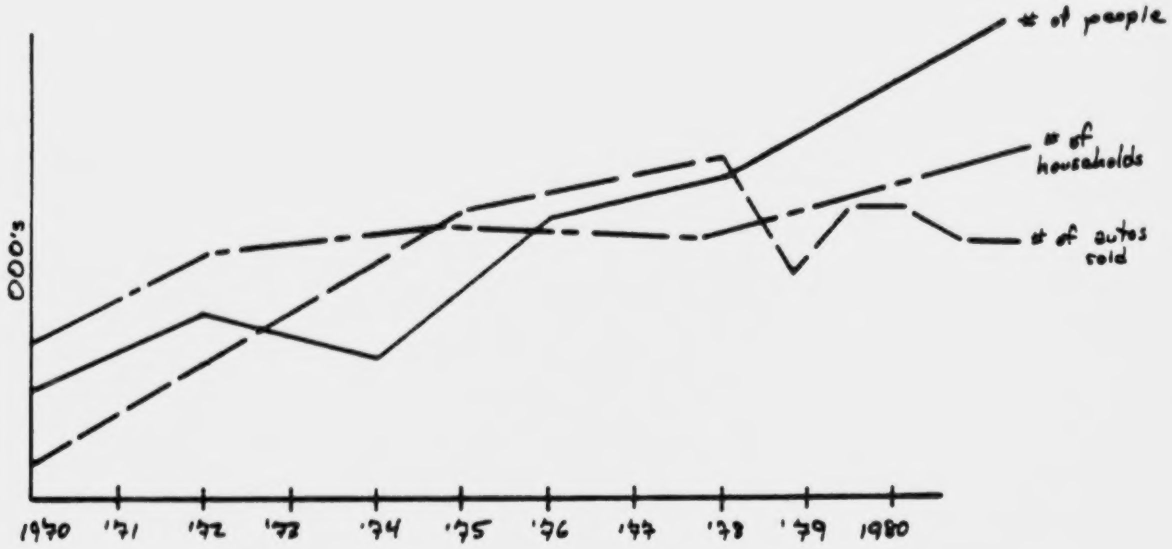
Thus, you have estimated your first year sales of $136,427 for hardware items in Roseau County.

You will learn a lot more about sales forecasting in the next chapter.

CRITERIA #2: MARKET TRENDS

Once you have a basic understanding of the make-up of the city and neighborhoods around a potential site, you will want to evaluate the community from a broader, futuristic perspective. Essentially, you are striving to imagine what it will be like to do business in a particular location in the future.



Trends can be discovered most quickly by the following methods:

-- Reading the local or neighborhood newspapers.

-- Talking with other business owners in the area.

-- Talking with the appropriate elected officials, including the Planning Department and the municipal body that is usually called the Promotion or Development Commission.

-- Making use of information available through the local Chamber of Commerce.

Trends that should be watched are:

-- Population shifts: Is the population stable? If not, why are people moving? Where are they moving? How is the customer base changing?

-- Progressiveness of the community: Is the community receptive to change? Will a new business be welcome?

-- Distribution of wealth: Do most prospective customers seem relatively affluent? Have they bought other types of products or services from existing businesses that would indicate they have the desire and means to acquire new things?

-- New construction: Where are the new developments being built? What types of developments are they? Again, the people who work for the city can provide a wealth of free information; talk to the people in charge of zoning, permits and licenses.

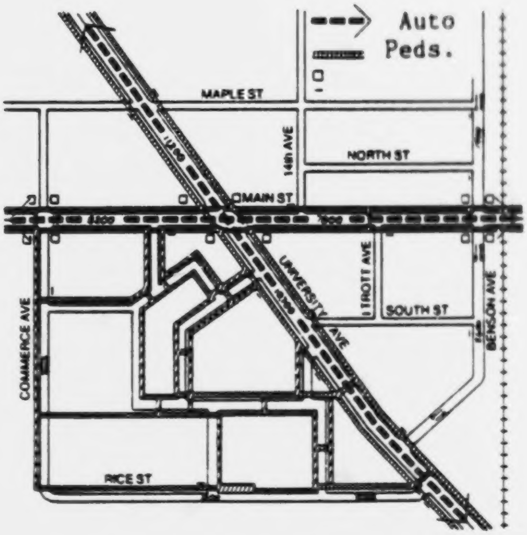
-- Business base: Is the community dependent on a single firm or industry? Is this industry or firm prospering? Do they have good relations with the community, or their union?

* * *

CRITERIA #3: COMPETITION

By now, you should be able to eliminate some of the site locations which you originally thought worth considering because they are not close enough to the people you think will be your best customers. Again, everything else being equal, location is important because you want to make it easy for your customers to buy.

Unless you are in a business without competition, your next concern is where your potential competitors are located. Naturally, your job will be more difficult if you locate just down the street from a successful, established concern. The time to find out about your competition is before you move in, not after!



Both automobile and pedestrian traffic count show University Avenue to be the best location.

Let's think about your competitors for a moment. What kinds of businesses would they be? If you want to see plumbing supplies, you will have to consider not only other plumbing suppliers, but also hardware stores and discount home centers. Be aware that the home care centers have a much larger trading area -- and a much larger advertising budget -- than you.

Don't kid yourself on this point. You are probably not the first person to think about servicing these customers in the way you plan, and you have to know who you are going to be up against in order to be successful. Pretending that there is no serious competition is like saying no one really needs what you are going to sell. What are people doing now when they want plumbing supplies or convenient shopping or clothing alterations or car repairs? These shopping habits will affect your sales.

NOTE: Draw up a list of all your potential locations and give each of them a letter code.

Now, you are ready for some work in the field. Your next assignment is to "shop" your competition for invaluable first-hand experience with them. Remember, you are not competing against an impersonal store with products and fixtures, but rather the people who run that organization. How they think about their customers, how well they treat them and what types of products and serices they offer are critical to your marketing approach. Since you have already narrowed your potential trading areas with the first two criteria, you should have a manageable number of competitors to shop. A personal visit is best, but some information can be obtained over the phone.

By "shopping" the competition, you are attempting to determine how well the customer base is being served. It is reasonable to conclude that if a competitor is providing high quality goods and services at a low rate and most people in the area are satisfied, you would be trying to build your success on his leftover customers -- and those are probably the customers he doesn't want anyway! In short, if there isn't room in a particular trading area, seek greener pastures now.

If, on the other hand, you discover that you are waited on by unknowledgeable or impolite salespeople, you may have detected a weakness in the competition. Similarly, the competition may be charging unreasonably high prices because they monopolize local business. The competitor's customers may jump at the opportunity to buy from someone else.

Here's how to "shop" the competition:

o Pretend you are a serious customer. As you walk in, :ote the appearance of the store or office. Do they appear concerned about their image? Is it clean? Is it easy and pleasant to shop?

o Take note of how long it takes for someone to notice you and offer to help. Explain that you are not going to buy today, but you need some information. Is the salesperson courteous and responsive? Give him or her a reasonably tough question to answer, and give them every opportunity to solve it. Does he or she seem to know their business? Are the answers complete and do they include prices and options? Are you satisfied as a customer that you were treated well?

o Finally, take whatever literature, price lists or catalogs that are available on the company. You will need these later as you design your own marketing programs.

	Courteous sales staff	Knowledgable sales staff ✓	Lumber stocked	Lawn equipment stocked ✓	Open evenings ✓	Automotive section that includes tires	Small engine repair service ✓	Glass stocked	Bathroom fixtures stocked ✓	Lighting fixtures stocked ✓	Phone quotes ✓	Free delivery ✓
Competitor A	X	X	X			X		X			X	
Competitor B	X	X	X			X	X	X				
Competitor C			X	X		X		X				
Competitor D	X		X			X		X				

CUSTOMER NEEDS THAT HAVE NOT BEEN MET
For a Hardware Store

The boxes with an 'X' indicate areas where the competition is strong. The areas checked (✓) are potential areas of service and stock that can be provided to gain a market advantage.

NOTE: Using your map, identify the location of each competitor you want to visit personally. Plan an efficient route to see all of them, and then shop them all on the same day under similar working conditions. The following Competitor Analysis form will help you summarize what you have learned about each competitor. Complete a form for each competitor before moving on to the next one.

At the same time, obtain a map of your local marketing area. On this map, use a colored marker to mark your potential location or the location where you would like to locate.

Now, with a different colored marker, place an "X" at each location where a competitor is located. When you have completed this, you have a much clearer picture of your competitor's potential impact on your business.

COMPETITOR ANALYSIS

Name of competitor: ______________________________

Address of location visited: ______________________________

____

Answer YES or NO for each of these factors.

High traffic area? _____ Easy access by car? _____
Adequate parking? _____ Free parking? _____
Easy to find? _____ Sign(s) used? _____
Store well lighted? _____ Well decorated? _____
Attitude of salesperson or proprietor? ____________
Knowledgeable? _____

Services available: (Check as applicable, or if offered)

_____ credit sales _____ coffee
_____ free estimates _____ rush orders at no upcharge
_____ delivery available at extra charge of __________
_____ pick up available at extra charge of __________
_____ samples available _____ literature
_____ variety of stock _____ special orders available
_____ custom work available
_____ guarantees and warranties
_____ repair service available

Brands carried:

____

Product selection:

____

Hours of operation: ______________________________

Days open for business: ______________________________

Price of item(s) shopped for:
Is price fair? _________ Competitive with you? _________

Pricing policy (discount, high, varies, etc.)

____

Advertising:

_____ TV _____ Radio _____ Newspaper
_____ Magazine _____ Direct Mail _____ Catalog
_____ Billboard _____ Other: ______________

Your evaluation: ______________________________

What can you do to be better than this competition? ________

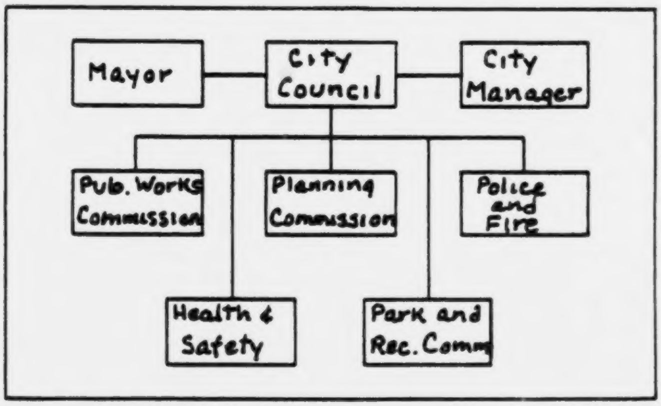
____

____

CRITERIA #4: LOCAL LEGISLATION

By now, you should be able to eliminate a few more site candidates from consideration because of a competitive situation. At this point, a minor concern with enormous implications should be double-checked: local zoning or closing ordinances.

For many of you, this will not be an issue because of the type of business you're in. But if you plan to open a restaurant, a social service facility like a day care center, a bar or liquor store, take the time to go to the municipal government and find out what will be required.



You can expect some differences between communities, particularly in suburban communities around a larger metropolitan area. Two or three miles away, on the other side of the municipal boundary, your situation may be more to your advantage. Or, if the ordinances have effectively screened out most of the competition, perhaps it would be worth your effort to comply if you could dominate the market.

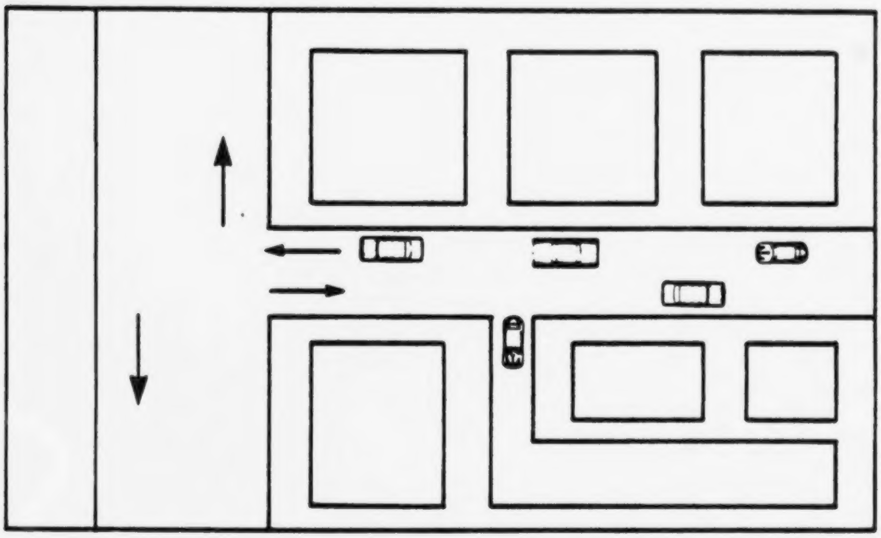
* * *

CRITERIA #5: TRAFFIC AND ACCESSIBILITY

Traffic and accessibility are more important to some businesses than others. Think about how you sell to your customers; what kind of business do they expect you to run? What is really important to them? In this and the following sections, you will begin to balance the advantages and disadvantages of the specific sites you have identified as good for your business.

So far, you have identified the best neighborhoods or shopping areas for your business. Now, you are ready to begin looking at specific locations within these areas. Your first concern will be for traffic patterns and accessibility. You know that you will have a good customer base in any of these areas you've targeted; the trick now is to find the best locations within each area.

In central and suburban business districts, small retail stores depend upon the traffic generated by large stores. Large stores and small stores alike must attract business from the existing flow of traffic; the same is true for restaurants and other businesses that depend on the buyer who decides impulsively on the basis of convenience. If you run one of these kinds of businesses, every dollar you spend toward getting a better location saves you many more dollars in advertising you won't have to do.



Study the flow of traffic, especially around shopping centers and large stores. Note one-way streets, street widths, and parking lots. Look for the best traffic situations for your needs.

Determine how important traffic is to your business by considering the other criteria we have already discussed. When you have narrowed your site alternatives to your best few, determine how important traffic will be to your success. Depending upon how important you rank it, you will want to consider the following factors:

a. **Public transportation,** which may be important for both your customers and employees; pay particular attention to locations in or near terminals.

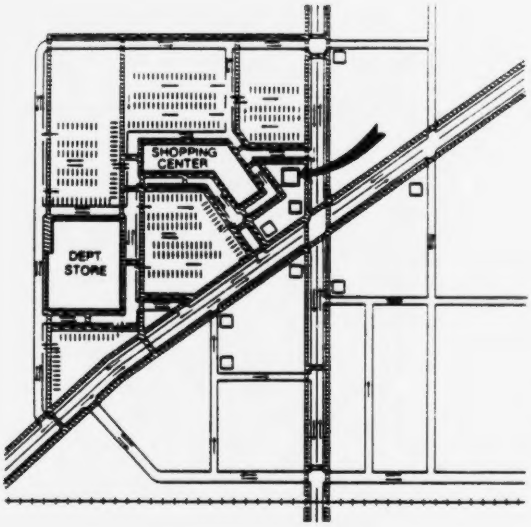
b. **Parking availability,** which will be important to all of your drive-by traffic. Cost and access to the lot or ramp are the most important considerations. Remember, it should be easy for the customer to stop and buy. Locating on a busy street will not help you if your customers can't stop to shop.

c. **Distance from residential areas or other business areas,** will be important with some types of businesses.

d. **Traffic congestion** can cause some people to actually avoid an intersection or shopping center. It is just like anything else: if it is uncomfortable or inefficient, it will hurt sales.

e. **Side of street** is surprisingly important. Most of the research that has been done for gas station locations applies to many other businesses that would sell to the customer driving by. It has been learned that people want to buy certain things on their way to or from their homes. For example, newspapers and gas are bought on the way to work, while food and dry cleaning are purchased on the way home. The clever merchants locate their establishments on the side of the street that "their" rush-hour traffic travels on. If you sell better during the afternoon, cater to the afternoon rush-hour and locate on the side of the street that carries the outbound traffic going home.

f. **Width of street** is just as important. Street width indicates how well-traveled the road is or will be. Generally, the wider the road, the better the location. A main thoroughfare is better than a "feeder" street because it carries more potential customers per day. A wider road is easier for customers, too. Remember to think like a prospective customer in a hurry: Will traffic be blocked by a double-parked car?



g. The **part of the block** in which you locate may be important. The corner is more visible than a location mid-block because it can be viewed from the cross streets, and rental rates usually reflect this advantage.

h. **Neighbors** can be your greatest help if you choose your location well. Neighboring stores that are doing a lot of advertising to build their traffic will help you, too, because they will have to pass by your store on their way. With this in mind, many business owners pool a portion of their promotion dollars to fund merchant's associations that promote a distinct shopping district. Pick your neighbors well; stay away from neighbors that discourage your type of business, including X-rated book stores and theaters.

How to Take a Traffic Count

First of all, be sure you need one. As you have learned, there are other criteria that may be more important. While knowing about the type and volume of traffic is useful, it may not make any difference to your business. If you do decide that a traffic count is necesssary, here are some tips to guide you:

o Many state and county highway departments maintain traffic counts on highways and busy commercial streets and roads.

o Simply look up the number for your county highway department in your local telephone book and call them. Or, you can write them a short letter, such as the following:

County Highway Department
XXX Street
City, State, Zip

Gentlemen:

I am interested in receiving copies of your traffic count material for Sixth and Main Streets. Please provide me with the most recent traffic count information available. Thank you.

Sincerely,

John Doe
Address

Your objective is to count the traffic passing by your location, both pedestrian and vehicular, who are potential customers. If you run a men's clothing store, you obviously are more interested in counting the men between the ages of 16 and 65. By watching the people passing by carefully, you can get a sense of what kinds of people they are and even estimate their financial stature.

It is also important to classify the reasons people are passing by. Are they going to work? A nearby store? People are not always serious shoppers. You will have to conduct a number of random interviews with passersby to get accurate information, but if you explain that you are conducting a market research study (which you are), most people are glad to help.

Pick a period of time to make a traffic count that represents a normal shopping situation. The time of day, week, season, weather and even the time of the month affect traffic flow. People shop more during the end of the week and around the first and the fifteenth of the month because these are the times when they get paid. Let local custom be your guide, and select one day that is the most "typical". Then, divide your day into half-hour and hourly intervals, and count the traffic in these intervals during the store's normal operating hours. If it is not feasible to count for the whole day, make representative counts during the morning, afternoon and evening hours.

Use your traffic count information to compare the relative merits of one location versus another.

FORMULA FOR ESTIMATING SALES FOR A LOCATION

1. Number of people passing by each day: ______________

2. Percent of people passing by who meet profile of prospective customer: ____________________________%

3. Average number of potential customers passing by each day: __________(Multiply #1 by #2. Remember, to qualify as a 'potential customer', a person must match your customer profile.)

4. Percent of prospective customers who would enter your store if it were there: __________ (This is based on your interviews, experience and industry statistics from your trade association.)

5. Average number of people entering your store to shop per day: ________ (Multiply #3 by #4.)

6. Percent of shoppers who would actually buy something: ______________ (You can get this information from trade associations, prior experience and interviews.)

7. Number of actual customers per day: ______ (Multiply #5 by #6.)

8. Amount of average transaction: ________ (Based on trade association information.)

9. Estimated daily sales: _______ (Multiply #7 by #8.)

10. Number of days per year store will be open: _________

11. Estimated annual sales: $__________ (Multiply #9 by #10.)

You can divide the people passing a site into three categories: those who would just pass by; those who would look in the window and possibly enter the store; and those who would buy after entering the store. If, out of 1,000 passersby each day, 5% enter and each spends an average of $8, a store at that site, open 300 days a year, will have an annual sales volume of $120,000.

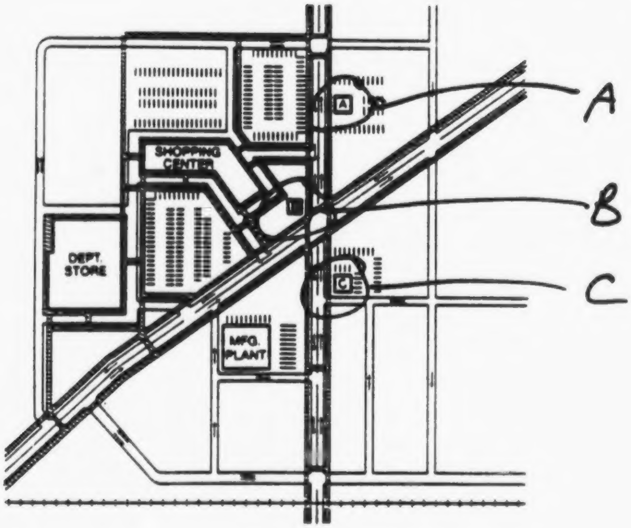
Obviously, you will have to make some assumptions and guesstimates to make these calculations, but if done at each site under your consideration, you will know which one or two locations are your "star" candidates. These are the ones with the most of your type of customer going by.

Other methods to calculate sales include talking to the competition -- believe it or not, people will usually give you honest answers to honest questions -- and asking suppliers. Suppliers are particularly knowledgeable about who is doing what, how much is actually being sold of a particular line, who has expansion plans, what the potential is for growth, and the like. To them, you represent a potential customer. It is worth their time to help you get started the right way. For the price of lunch, you may be able to learn information that will significantly improve your plans.

For more information about sales forecasting and market potential, refer back to Chapter 2.

Pick the Traffic Flow That Is Right For You

The site in the central business district that has the highest traffic count of the "right" kind of people desired by a particular store is considered a 100% location. However, a 100% location for one store may be only an 80% location for another type of store with a different customer base. For example, a site that is a 100% location for a drugstore may be an 80% location for a men's store and only a 60% location for a paint store.



Location A, with plenty of access to parking might be best for a walk-in business. The business at location B has high visibility, but limited parking, while store C gets a heavy flow of blue-collar traffic.

Pick the right traffic pattern and flow for you. It stands to reason that what's right for someone else will not necessarily be right for you. But with a good understanding of who your customers are, you will be able to identify the patterns that will help you the most to succeed.

* * *

CRITERIA #6: THE BUILDING OR SPECIFIC ADDRESS YOU CHOOSE

When your potential locations are narrowed to a few, it will be necessary to visit each for a thorough inspection. Be sure to record your findings to questions like these:

1. Age of building.

2. Condition of building.

3. Condition and adequacy of all mechanical systems, including:
    a. electrical
    b. plumbing
    c. heating and air conditioning
    (Note: If you find discrepancies or a borderline condition, it's best to hire a professional inspector.)

4. Is remodeling necessary? At whose expense?

5. Are doors large enough to bring in necessary fixtures or items you sell?

6. Are public lavatories available?

7. Is storage or warehouse space available if needed?

8. Are there any potential safety hazards?

9. Is security adequate? (Consider door locks, burglar alarm, fire and smoke alarms.)

10. Is the building insured adequately and under conditions you would impose upon it?

You may develop additional questions which fit your particular situation. Your investment of thought and time at this point will be of critical importance at a later date.

* * *

CRITERIA #7: MISCELLANEOUS FACTORS THAT MUST BE CONSIDERED

By now, there are probably just a few sites that meet all of your criteria. Other important factors that must be considered include:

- Is the environment suitable? (Is it too smoky or noisy to be attractive to your customers? Is it too close to undesirable neighbors, such as bars, factories or garages?)

- Is the neighborhood suitable? (Is there adequate security, including police and fire? Are the sidewalks maintained? Is the building of quality construction?)

- Is the building ready to be used? Are you moving into a building that will complement your enterprise?

- Think like your typical customer: What does he or she expect? Is your business attractive enough, clean enough, conveniently located?

SPECIAL TIPS

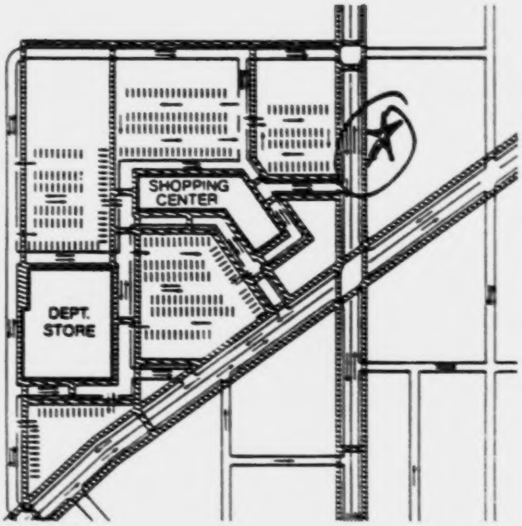
Here are some special tips that will help you find that special location with that extra advantage.

Look for parallel businesses. We've discussed what types of businesses to stay away from; there are also some you should try to stick close to.

Ask yourself: Where else do my customers shop? Locating near a parallel business with an existing flow of customers will help you attract new customers faster. Tandy's Radio Shack stores do best when located near a hardware store or men's wear because they attract men and do-it-yourselfers. Florsheim Shoe Company tries to locate near the financial districts because of the concentration of men who have to look good on the job.

Let Sears do the demographics. Despite its troubled sales record in recent years, Sears retains a first-rate reputation for picking good retail sites. The same is true for several other department store chains: Federated Department Stores, Carter Hawley Hale and K-Mart.

These people know what they're doing. They have typically spent much more time and money in their research efforts than you will be able to do, and they have better resources to draw upon. Take advantage of what they know and piggyback on their research -- provided, of course you both sell to the same customer.



High traffic, high visibility, parking near-by, and proximity to shopping center make this the most ideal location, IF the other factors are acceptable.

Learn to use your local library reference materials. One of the best is the annual **Editor & Publisher's Market Guide**, which provides such tidbits as which supermarkets and department stores are in which shopping centers and what the deposits are at local savings institutions. Local newspapers, banks and Chambers of Commerce are also useful. Finally, the U.S. Census data can help you find information about your prospective sites that you didn't even know you were looking for until you find it.

Remember that demographics aren't everything. A crowded intersecton is a good example. While the traffic count may be wonderful in theory, it may actually be a disadvantage because nobody will stop. In this case, the intersection is actually overcrowded for the purposes of the business owner.

Your store does not have to be near where people live; it could be near where they work. Wendy's, for example, has been successful placing stores across from light industrial plants and commuter college campuses. Big industrial complexes don't work as well, however, apparently because the tight security and rigid lunch hours make it too hard for employees to leave the grounds for lunch. However, bars usually do well at such locations.

Advertise. If you are in a mall or shopping center, your advertising does double-duty by attracting customers for your co-tenants as well as for you. In some situations, this makes you a more desirable tenant, and this is a valuable negotiating point when it comes time to sign a lease. While some tenants have to pay as much as 10% of gross sales in addition to their per-square-foot rental for space in malls, active advertisers may have to pay only 3% to 5%.

Make efficient use of your space. Strike a balance between the amount of space you would like to have and the amount you actually need. Design and redesign your floor plan until you are satisfied you are getting the most out of your space. It is better to start small and show a profit so you can expand later than to go broke quickly because you couldn't afford a crushing rent payment. Further, it is better to get a smaller space in the best location, even if you are a bit cramped, than to spread out comfortably away from the flow of traffic.

Ask for an excessive vacancy clause in your shopping center lease. You can die on the vine if your big neighbor moves or goes out of business. With an excessive vacancy clause, you can break your lease if too much space is unfilled for too long. You need some market muscle to get this position written in, but if the center wants you badly enough, you can get it.

Try to locate in the center of the market. Don't let your competitors head you off at the pass; force them to the extremities of the market. If you know where the heart of the market is located, go for it. Remember that markets have a way of shifting over time, and that you want to be there just before your customers or your competition.

One man's meat is another man's poison. Radio Shack avoids beauty shops, for example, because the parking space -- especially in small shopping centers -- is taken up too long. Walgreens, however, is attracted to beauty shops because women come in to stock up on hair care products after their hair is done. Walgreens also likes laundromats because people with time on their hands are natural browsers.

Note: By now, you should be able to identify your best one or two locations.

You have just completed the chapter on CHOOSING YOUR LOCATION. In this chapter, you have learned that:

1. Choosing the right location for your business is one of the most important business decisions you will make.

2. Even if you have no control over your location, by obtaining information on your market, your potential customers and competition, you can run a better business.

3. You can obtain information on your populaton and market from your library, real estate firms, local banks, local newspapers, Chambers of Commerce and even state and county offices.

4. In studying your market, it is important to get population information on the cultural, religious, national origin, income, vocations, age and mobility characteristics.

5. You can anticipate future market trends of the community by studying population shifts, progressiveness of the community, distribution of wealth, amount of new construction and strength and attitude of the current business base.

6. By shopping the competition, you evaluate customer satisfaction and your opportunity to succeed in each area.

7. You should determine the effect of local ordinances on your business.

8. By studying traffic flows, patterns and accessibility, you can select the locations with the amount and type of traffic best for you.

9. You should carefully prepare a list of your building requirements and then inspect a few desirable locations.

10. By studying business neighbors and their customers' needs, you can judge your neighbors' impact on your business.

At the end of Chapter 2 on Market Research you will find a listing of sources of information. Included are considerable sources of information which can assist you in your site selection. For example, Dept. of Census data and U.S. Small Business Administration.

CHAPTER 5

Financing your small business

How to propose to your banker

INTRODUCTION

MONEY is the key to starting a business. You have to want it in order go get more of it, and you have to be organized enough to keep it and manage it once you get it. Unless you have successfully managed a small business before, brace yourself--because you are going to learn a whole new way to think about money!

First and foremost, forget all those discouraging words you heard from the pessimists in your life. You CAN get the money you need to start and successfully run your business--IF you follow the plan we lay out for you in this chapter. It may be of interest to you that more new businesses have been opened since 1980 than in any similar period in history, except for perhaps the time immediately after World War II. Each one of them started the same way--with an idea and a little money.

Money is why a person goes into business in the first place. Money means freedom to the small business person. It means power, too--power to do the things you always wanted to do. Money can do a lot for you, if you learn to manage it early.

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These are the three MONEY KEYS you will have to keep in mind:

- o **YOU MUST WANT TO MAKE MONEY.**
- o **YOU MUST KNOW HOW TO SPEND MONEY.**
- o **YOU MUST KNOW HOW TO USE OTHER PEOPLE'S MONEY TO FINANCE YOUR BUSINESS.**

Let's look at each of these. **Key #1 is the most important: you must want to make money.** Surprisingly enough, some people are content to just work on the "fun" parts of their business and ignore the financial side. Naturally, this can't go on forever. Money travels a two-way street; it can go out just as fast as you bring it in, if you let it. Remember that money buys you a certain amount of freedom to do those things you like, but only when you take care of it.

You may find it helpful to write down your answer to one question: **WHY** do you want to make money? Some people are looking for an extra bit of cash each month to buy themselves some security, and so they put what they make into a retirement account. Others want a business that is a tax shelter to protect their other income. Some want to buy personal 'toys'; still others want to "make a million" so they can buy a new home for their family and retire early. Whatever it is, keep your goal in mind. It will help motivate you and keep your business senses sharp.

We are not suggesting that you make money your sole objective. For everyone's sake, don't change your value system now! However, WE ARE STRONGLY RECOMMENDING that you GET SERIOUS about money now. Making money is a way of keeping score in the game of life, and it can warn you when you are getting into trouble. No one wins if you go broke, even if you enjoyed spending your cash and wasting your time in the process! Being conscious of money forces you to run your business better.

Key #2 is: you also have to know how to SPEND money. Since more small businesses run short of operating cash at one time or another, small business people who are successful are of necessity very resourceful individuals. They are masters of "have-not" financing, and are somehow able to make every dollar work like two. They can do this because they have paid attention during the time they were learning their business; consequently, they know how to cut the right corners. They know when to spend money for new inventory; they know when to buy the new truck. They are very careful about hiring the right people, and they avoid paying high interest rates on debts like the plague. In short, they think things through before they waste their hard-earned cash.

Key #3 is: finance your business with other people's money. Don't let this notion surprise you; joint ventures between people with money to invest and people with ideas is a cornerstone of the free enterprise system. It **does** take money to make money. You need it to pay the bills before you make a profit (this is called 'operating' money because it pays for the day-to-day operations), and you need it to buy equipment (this is called 'capital' or 'long-term' money because these purchases are large, one-time expenses that are paid for over a long period of time).

THERE **ARE** MANY PEOPLE WHO WILL INVEST IN YOUR BUSINESS WITH YOU. There are people like this in every community--people who have made a few dollars and want to keep making more, but by letting other people do the work instead. For their part, they will provide the money to get the business started. Their business is to share the risks with you. They are motivated by the desire to make more money, just like you.

Investors in small businesses hope to reap larger than normal rewards because of the higher than average risks. Just like you, they want to make a lot of money. They know that they don't know enough or care enough about your particular business to make it successful without you, so they depend heavily on you to run the business well. In many regards, they feel like they are investing in **you**, not necessrily your business. The quality of your ideas and your hard work makes you an equal with them. You need their money, and they need your business.

In short, the way to share the risks of small business ownership is to use other people's money--and the way to get them involved is one of the purposes of this chapter.

Chapter 5 is about money: how to determine how much you need, and then how to go about getting it. In this chapter we will discuss:

A. How much money will you need to start?
B. Four steps toward a loan.
C. The two general categories of financing.
D. Where can you borrow money?
E. How to prepare a loan proposal.

Without enough money to get you started and pay the bills until you show a profit, you will go broke. When this happens, a business is said to be undercapitalized. Being undercapitalized is one of the most common reasons a business fails. We believe that an undercapitalized business is really just an 'underplanned' business. In this chapter you will learn how to prepare, package and present a financing proposal for your business so that you can start with enough money to make it work profitably.

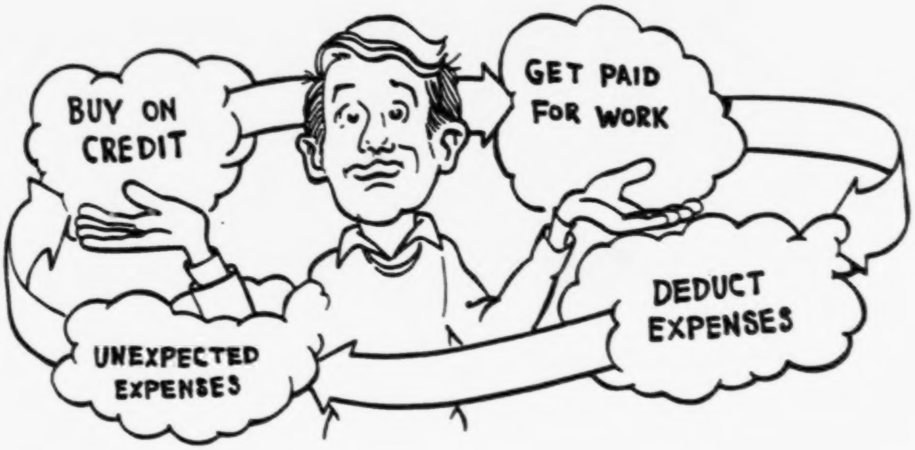
The goal of Chapter 5 is to prepare you to write your first loan proposal and present it successfully. We'll begin at the beginning.

HOW MUCH MONEY WILL YOU NEED TO START?

The answer to this question is easy to understand, but hard to calculate. A new business needs: 1)enough to buy the equipment, tool, raw materials, inventory or whatever else it needs to build the products or provide the service it sells; and 2) enough to pay the day-to-day operating expenses until the profits begin.

Most entrepreneurs are proud, resourceful people; they feel uncomfortable asking for money. Their initial tendency is to ask for too little money. Being as optimistic as they are about the future of their enterprise, they assume that they can make everything work the way they want it to. As a result, they start their business with less money than they need.

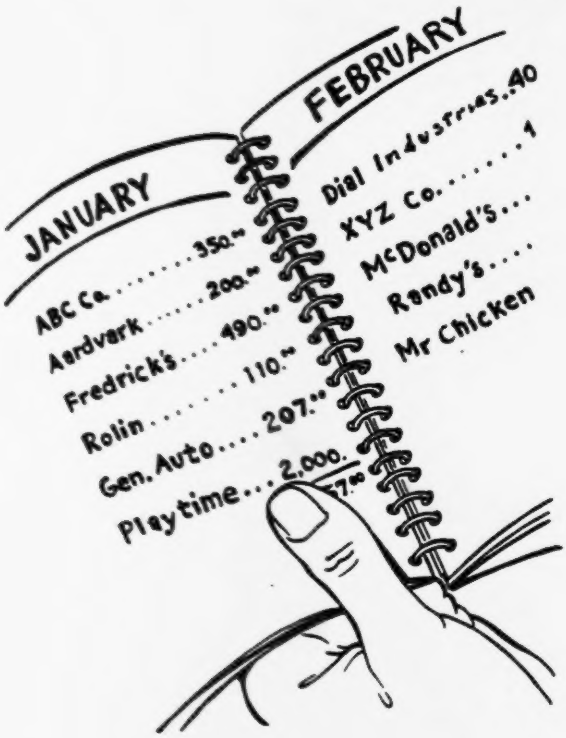
Buck's painting service is a sad, but true, case of poor planning. He thought he could get started on the money he planned to make from his first job. He bought the business cards he needed and his first order of paint on credit, figuring that he could collect the money before the bills were due in 30 days. He didn't plan on having to buy an extra ladder, but he felt pretty good about the amount of money he was making; so he went ahead anyway and put it on his charge account with the paint supplier.



The job went reasonably well: he finished on time, even though he had to go back and get two more gallons of paint to get the right coverage. The customer paid him in full when he was finished, too. Unfortunately, on the way back from the job, his truck finally lost the exhaust pipe he had been patching together for the past few months. It took $187 to get it replaced, and that was $187 he didn't have. Since he wasn't working his regular job anymore, all of his regular expenses had to be picked up by his business in addition to the expenses for his first job. He was too tightly budgeted, and all it took was a bad bump on the road to throw him off.

In less than a month of business, Buck had already dug himself into a hole that looked deeper every day. He got so worried, he went back to his old job because of its regular income. Because he wasn't out soliciting new customers and he wasn't available to answer the phone or make estimates, what little business he did have trickling in dried up almost immediately. By the third month, Buck was out of business, vowing never gain to do anything that crazy.

Imagine another small business--this one a word processing service--that started with a good deal of planning up front. Judy thought carefully about where her customers were going to come from, how much they probably would spend with her each month and what kind of equipment she would need to service them. She took time to shop the market, get the right equipment to begin with and even approached a few of the customers to find out what kind of jobs they were interested in. She was pleasantly surprised to find a small publishing company that had overload work every July for about six weeks, and they needed it done in a special typeface. She said she would prepare to handle the work at a pre-arranged price if they could assure her of the contract.



As a result of doing her homework, Judy was able to predict very accurately what her monthly income was going to be. She felt very confident about her figures for the first six months, and reasonably confident about the second six months. Based on these estimates, she was able to calculate her start-up costs and her operating expenses. The moral of the story is simple: when she got the biggest projects of the year - as planned - she was ready for them. She had the cash she needed to pay an extra typist to work overtime on a rented word processor and she could afford to buy the new typefaces she promised the customer to get the job in the first place.

What is the difference between Buck and Judy? Very simply, one planned the financial side of the business, and the other didn't. One is still in business, and the other isn't.

You CAN do it! There is nothing magical about financial planning, and you don't need a lot of formal training to do it. All you need to do is look ahead and imagine what is going to happen in your business, and then use your common sense!

Buck is statistically more typical than Judy. Planning the finances for a business is hard work, and not everyone likes to do it. Not everyone realizes how important it is. Then, four or six or twelve months later, just as things are starting to get going, they run out of money. Instead of concentrating on delivering products and services to their customers, they're running around town trying to arrange financing to pay their suppliers and the phone bill so they can stay in business. Since they can't take care of the customers at the same time, the customers get frustrated and begin to drift away. Sales and cash flow go down. As the situation gets more desperate, the small business owner runs faster and faster, trying to keep it all together. It becomes increasingly difficult to reverse this downward spiral; ultimately, the business runs out of time with the creditors and the entrepreneur runs out of energy and excuses. The poor management decisions lead to the initial undercapitalization, and the undercapitalization finally causes the business to fail.

It doesn't have to end this way, however. Undercapitalization is just "underplanning"; with a little more planning at the beginning, the small business can get a little more money up front, and that can make all the difference.

Here's how to do it: to calculate how much you will need, you must construct a CASH FLOW PROJECTION, sometimes referred to as a PRO FORMA by your banker. **This tool is better than a crystal ball!** It is a wonderful planning tool because it can help you imagine the future. By imagining, or projecting, what you think you are going to sell and spend during the upcoming months, you can see problems coming while there is still enough time to do something about them. Losing money on paper is a lot easier to take than losing real money -- especially when it's your own!

To construct a cash flow projection, all you need to do is estimate what it is going to cost to keep your business going month-by-month during the next year or 18 months. You can think of it as all of your monthly income statements side by side. (Your income statements are the statements that list your sales income, sales costs and overhead expenses, thereby giving you a monthly profit or loss figure.)

By adding together all of the "bottom lines," that is, the monthly profits or losses, you will be able to see your cumulative cash flow. Look at how the bottom line changes in the example which follows.

FRANK'S SNOW PLOWING AND LAWN CARE SERVICE
PRO FORMA CASH FLOW STATEMENT
FOR THE TWELVE MONTHS ENDED MARCH 31, 19XX

	APR	MAY	JUN	JUL	AUG	SEP
SOURCE OF CASH:						
SALES	2500	3000	3500	500	500	1000
USE OF CASH:						
COST OF SALES	1175	1350	1575	275	275	450
OPERATING EXPENSES	1443	1555	1668	893	893	1055
TOTAL USES	2618	2905	3243	1168	1168	1505
INCREASE (DECREASE)	(118)	95	257	(668)	(668)	(505)
CUMULATIVE CASH FLOW	(118)	(23)	234	(434)	(1102)	(1607)

	OCT	NOV	DEC	JAN	FEB	MAR
SOURCE OF CASH:						
SALES	1000	6000	6000	12000	6000	6000
USE OF CASH:						
COST OF SALES	450	900	900	1800	900	900
OPERATING EXPENSES	1455	2380	2380	3530	2180	2330
TOTAL USES	1905	3280	3280	5330	3080	3230
INCREASE (DECREASE)	(905)	2720	2720	6670	2920	2770
CUMULATIVE CASH FLOW	(2512)	208	2928	9598	12518	15288

What does this cash flow projection tell us about Frank's business? First, it tells us a lot about how he spends his money and is very helpful in determining how much he will need to run his business.

Here is a list of the equipment Frank's company will need:

	Cost
Truck (4-wheel drive) for snow plowing and hauling lawn mowers	-0-
Snow plow attachment	1,700.00
Snow blower	1,000.00
Gasoline tank for extra gasoline	50.00
Snow shovels (2)	200.00
Ice axe	75.00
Lawn mowers (1 riding, 1 push)	2,000.00
Grass bagger	100.00
Rakes	50.00
Shovel	30.00
Chemical sprayer	150.00
Hoses (3)	70.00
Pruning shears	50.00
	5,500.00

In addition to the $5,500 for equipment, Frank needs $800 for fertilizer and insecticides, $1,000 for office equipment and $200 for office supplies. Thus, his total start-up expenditures will be $7,500.

Frank's start-up costs could have included the amount of his original equipment investment to get his truck but since he was able to buy it over time and pay cash, it does not have to be counted as a start-up expense. He sold the truck to his company for $10,000 and enjoys some very nice tax benefits.

This was a smart way to get himself some of the equipment he needed because he can now count it as an asset without debt, but it wasn't the only way. The truck could have been financed through a local banker.

What else can we learn from Frank's pro forma cash flow? We can see just when he gets his income, and at what levels. Notice that Frank's cash flow has dramatic seasonal fluctuations: in the winter and spring, he is taking in a lot of cash. However, there a few months between seasons when the grass isn't growing and the snow isn't falling, so he isn't making much money. Actually, during these months, he is taking in very little and must live off what he has already earned.

So how much does Frank need to start? It's simple: he needs enough to pay his start-up costs plus the extra amount he needs to get himself through the slow months of low income.

The lowest point of Frank's cumulative cash flow is in the seventh month (October) when he is "down" $2,512. At this point, he has paid all of his bills, but still has more money going out than coming in. If it kept up like this, Frank would soon be out of business. However, Frank knows that it takes this long to establish himself in the market and build up his accounts.

Now, most entrepreneurs would say, "It looks like I need about $10,000 to start my business -- $7,500 for start-up costs and $2,500 to cover expenses that exceed my income through October." But Frank is a little smarter than that -- he knows that if it doesn't snow as expected, the money from his plowing contracts will start late.

Instead of getting "just enough" to get started, Frank uses a good rule of thumb he learned from his banker: he is going to begin his company with enough money to purchase his initial equipment and supplies ($7,500), plus one and one-half times the amount he thinks he needs to cover his expenses in the early months. One-half of $2,500 is $1,250; $1,250 plus $2,500 brings the total up to $3,750 for operating expenses. Rather than getting "just enough" -- which was probably just enough to get himself into trouble -- he is getting enough money to succeed. He has planned extra money for those unexpected problems that come up. Now, if he needs to make repairs on his truck, or if the price of gas goes up, or if it doesn't snow as planned, he will be able to ride out the situation and be around to profit another day.

You **must** do this for your business, too. Before you start looking for ways to cut corners or start operating on less than you should, find out how much it would realistically cost to run your business the right way. Remember -- multiply the lowest point in your cash flow by 150% or even 200% and you will be very near the actual amount you will end up spending. This is the ACTUAL amount of money you need to get your business started. If you follow this rule, and you have carefully thought through all of the expenses to include on your cash flow projections, you will not suffer from undercapitalization.

Frank's goal now is to raise the $7,500 he figures he needs for start-up and the $3,750 he needs for operations, a total of $11,250.

FOUR STEPS TOWARD A LOAN

Unless you are able to write your own check to start your business, you will have to get at least a few other people involved. Even if you are able to do your own financing, you may want to get someone else involved anyway because of their skills, business contacts or experience.

One of the principles of small business that you should become familiar with now is the notion of using other people's money to begin a new venture. Remember, this is the **third key** to understanding money that we discussed at the beginning of this chapter. This is referred to in the financial community as 'sharing the pie'. When you use other people's money, you are saying to them, "If you let me use your money in the beginning to get started, I'll share my profits with you later." In this way, you both make more money. Economists call this the creation of wealth, and it's one of the fundamental components of our free enterprise system.

Getting someone else involved is a decision that you must think about carefully. The easiest or the cheapest source of money is not always the best. There may be "strings" attached or unreasonable conditions.

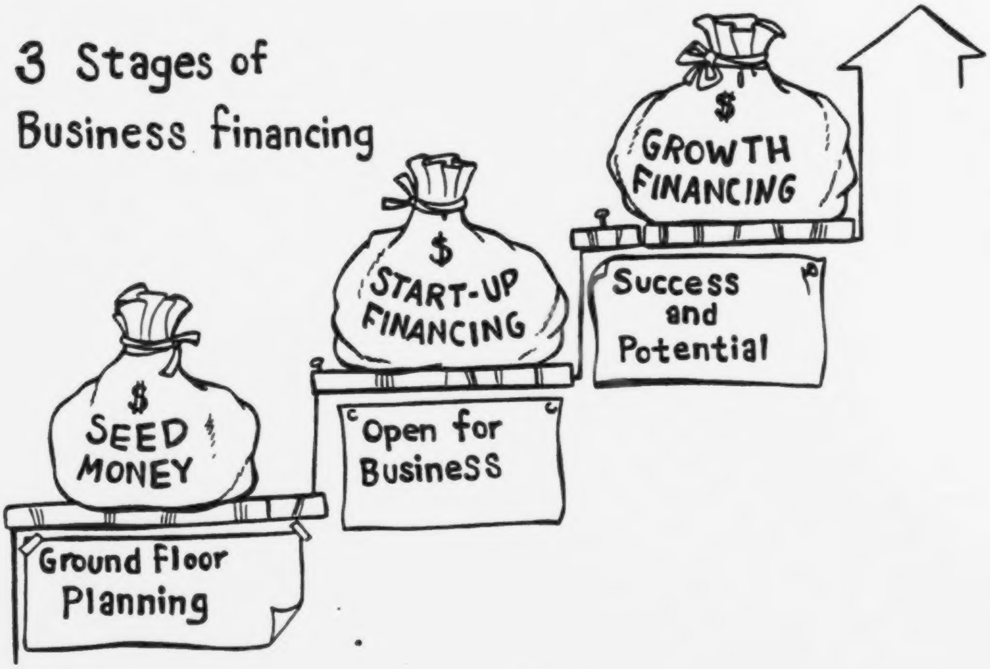
Once you have decided how much you need, you will be almost ready to start discussing your situation with people who can help you. First, you have to **PACKAGE** your idea. In a way, you have to sell someone else on your dream -- and in order for them to be persuaded to part with their cash, you have to convince them that you are worth the investment.

Where you get your money is largely dependent upon how much you need. Different sources are comfortable with different amounts. Generally, the more money you want, the more "packaging" you need and the more lengthy your written proposal.

Yes, you **will** have to **write** your proposal. For obvious reasons, this is still the best way to get your story in front of a lot of people quickly, professionally and in a consistent way. But don't despair if you aren't the world's greatest writer or a born "typewriter jockey" -- you can get plenty of help from secretarial services, someone you know with a word processor or a student looking for part-time work. The important parts are your ideas; so if you can't do it alone, find someone with whom to work. Look at it this way: being able to meet this challenge is one of your first managerial tests!

There are basically three stages in financing a business. These reflect the three basic life cycles in a business.

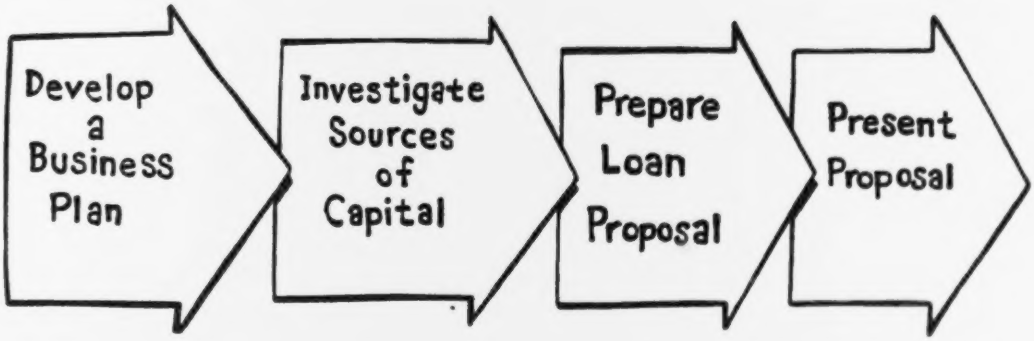
First, there is **seed money** that is used in the very preliminary stages of a business. The amount of money needed here can be quite small. It is used to organize and plan the project. Frank used his personal money for this stage to drive around town talking to building owners about his contract plowing service. It cost him several hundred dollars in travel expenses, lost wages from his regular job, lunches, letters, postage, letterhead and the like. A restaurant entrepreneur might use this time and money to make a site selection and have an architect do some preliminary drawings of the restaurant.



The second stage of financing is the **start-up** financing. This is the money it will take to get the doors open and get the business started. Frank needed his $11,250 for this stage.

The third stage is **growth** financing, and is usually needed after a year or so of successful operation. Frank might want to buy a few more trucks or set up a similar type of operation in a nearby community once he's got all the bugs worked out and has turned the corner of his one-truck operation. ("Turning the corner" means he is showing consistent profits.) The restaurant entrepreneur might want to open another location or two, or even start franchising his idea if it turns out to be profitable.

HERE'S HOW YOU PACKAGE OR PRESENT YOUR SITUATION TO A POTENTIAL INVESTOR OR LENDER:



STEP 1: Develop a business plan. In the financial community, this is THE tool you need. It is a typewritten report that tells the investor or lender that you have thoroughly planned your business. It is designed to give them confidence in you. IF you don't need very much money, say $15,000 or less, you may not need to write a complicated plan, but you should have at least thought enough about each of the aspects of the business plan to be able to discuss them with an investor or lender.

Basically, the business plan answers the following questions in a logical order:

1. What is a business?
2. Which will be the most profitable products?
3. What are the major markets and competitors?

It also presents the budget and cash flow projections for at least the next 12 months.

The details of writing a business plan are presented in Chapter 18.

In Frank's case, he didn't feel he needed a business plan for his snow plowing and lawn care business. "Too much work," he thought. Frank was right -- his $11,250 was a relatively small amount of money for relatively straightforward needs. He did think about each of the components thoroughly, however, because he knew that some people would push him just enough to find out how much he really knew about his business.

STEP 2: Investigate potential sources of capital. After you have done your basic planning and have prepared your loan proposal of up to 10 pages, you can start looking for the best source for the amount of money you need. Frank's snow removal and lawn care business needed $11,250; this is a lot of money to some people and not enough to trouble with for others. We will discuss several of the best sources of money a few pages from now.

STEP 3: Prepare a loan proposal. This is ABSOLUTELY REQUIRED for all but the informal financing arrangements. It is like a mini-business plan, is about 10 pages long, and is tailored specifically to a single investor or lender. Because it is short, each one can be customized to show each prospective lender or investor the information that is needed or requested This becomes the "talking tool" in your negotiations for money. It has the following information:

1. A very brief summary of your business, including what your business is, what products you sell and the general types of competition you have.

2. A brief history of yourself and your business to date, including any other financing.

3. An explanation of the proposal: what amount of money you need, what terms are preferred, repayment preference, collateral available, equity options available and any other information that is relevant to your specific request for funds.

4. The appropriate financial statements must be included: balance sheet, earnings history (if any) and financial projections for three years.

5. Credit, personal and business references.

Frank put together a very successful financing proposal for his business. It did its job -- it got him the money he needed on terms that made sense for him. Later in this chapter, we will take a close look at a typical loan proposal so you can see exactly how to put yours together.

STEP 4: Present your materials to your prospective lenders or investors. This can be a formal presentation or an informal discussion, depending upon who you are meeting with. One of the people who expressed interest in Frank's business turned out to be his barber -- he was interested in investing the whole $11,250. When Frank made his presentation, he did it over coffee at a restaurant near the barber shop. Later, when he made a presentation to a loan officer at a bank downtown, it was much more formal.

That's all there is to it: 1-2-3-4, and you've got the money you need to start and run your business. YOU can do this, too -- literally hundreds of thousands of people are getting millions of dollars to start and run their dreams every year.

For the rest of this chapter, we will concentrate on filling in the rest of the "hows" related to getting money, such as:

* How do you find people who are able to lend money or invest?

* How do you approach them and ask them if they are interested in your proposition?

* How do you make a successful presentation?

By the time you have finished this chapter, you will be fully prepared to get the money you need. You will be able to hold your own in conversations with other business people, investors and lenders. In short, you will have learned what it takes to put money behind your dreams. Rather than just being a bystander, you can be an active contender.

THE TWO GENERAL CATEGORIES OF FINANCING

Obviously, there are as many different ways to structure a deal as there are people to make the deals, but they all fall into two general categories: debt financing and equity financing.

DEBT FINANCING is the simplest way to raise money. Basically, it describes any kind of loan. The person or organization loaning you the money makes his money on the interest you pay. As long as you continue paying the loan payments, he will leave you alone and let you run the business as you see fit. The interest rate is agreed to in advance. The loan-maker knows how much he will make on the deal before he loans you the money, and his chief concern is whether you will be able to pay back the loan on time.

DEBT FINANCING ?
? ?
Equity FINANCING ?

Your ability to repay makes the difference when you convince someone to loan you money. Depending upon whether it's your bank or your brother, you have to satisfy different criteria. Your prior history of repayment (your credit record) and the viability of the business are key elements. Obviously, if you still owe your brother from the last $500 he loaned you and he thinks your business idea is pretty shaky, he is going to doubt your ability to repay. If the business goes bad, how will you pay him back?

If you talk to your bank, the same concerns are present. What assurances and evidence can you give that indicate that you can pay back tomorrow what you borrow today? If your business idea seems shaky, the bank may ask you to pledge your car or even your house as collateral in case you can't make the payments. You may want to think twice about what you pledge and how much you pledge. If the unthinkable happens and you lose the money in the business, you risk losing some of your own assets. Sometimes bankers ask you to pledge collateral to lower their risk by taking on more of it yourself; in essence, they are saying, "We will let you use our money so you don't have to sell your assets to raise the money. But we want to be sure of getting our money back and we want to see how committed you are to this new business of yours. We want you to put up your personal property as security for us."

EQUITY FINANCING is different. Selling equity means you sell a part of the business to someone else. What they are purchasing by investing in you is the possibility that you will make a success of the business. They are gambling that, in the long run, their share of the business will be worth many times more than the amount of their original investment.

You have to decide two things: what you WANT (in other words, what would be the best deal for you) and what will WORK. You may have to settle for a "less than ideal" arrangement. You must think through beforehand how much risk you want to take yourself, how much you want to share with an outside investor, how much control of the day-to-day operations you want to share and how much of the "pie" you want to share, if any. Many small business people eventually conclude that sharing a larger pie and sharing the risk is worth giving up part of the profits and some control.

The right investor can be an angel, but the wrong kind can have a very negative influence. If the investor brings valuable management expertise or skills to the business, everyone wins. However, if the investor is a 'meddler' or egomaniac, it may be better to look for another investor - a silent partner - who will stay in the background.

Sometimes you can combine debt and equity financing. This is called a **convertible debenture.** This begins as a loan, and then is converted to a share in the ownership of your business, if and when the business is successful. It is particularly attractive to friends and relatives and certain business investors. If the deal goes sour, they fall back on the provisions of the loan. If it is successful, they can convert their loan into stock or part ownership of the business at probably a much better profit or gain than through an ordinary loan with interest.

WHERE CAN YOU BORROW MONEY?

There are many different sources of money. Each of them can be considered a possibility for the person who will need money to either start a small business or to help an existing business. These sources include:

Family or Relatives. If you are fortunate enough to have family or relatives who have money to invest or loan, then sometimes they represent an excellent lending source. Exercise great caution, however, when borrowing money from a relative. There is an old saying: NEVER MIX BUSINESS WITH PLEASURE.

For every family loan that goes sour, there are probably two sweet ones. Before seeking out a loan from a relative, consider what future effect a loan may have on the relationship.

Friends. Friends, by their very nature, trust one another. And they often are in a position to aid in a financial situation.

Again, as with relatives, one has to be careful to assure that the friendship will not be put into jeopardy in the event the friend will require a sudden payback.

Commercial Banks. Commercial banks are the largest single source of loans to both small and large businesses. Banks are in the money business. They make money by lending money.

At the end of this loan source listing we will describe in considerable detail how to prepare a BANK LOAN PROPOSAL.

Savings and Loan Associations. They are like banks in most respects but have a different type of charter.

Credit Unions. Most large companies, labor unions and some trade organizations have a credit union. They are established to assist employees with savings as well as loans. Many individuals who go into business either on a part time or spare time basis finance their businesses via a loan

from their credit union. If you have access to a credit union, it is a good idea to investigate the possibility of a business loan, and the interest rate and collateral required.

Loan Companies. There are a number of companies in most communities whose express purpose is loaning money. Some of the larger national companies with offices in most principal cities include Dial Finance, Beneficial Finance and Household Finance.

Small Business Investment Companies (SBIC). These are privately owned companies licensed by the Small Business Administration (SBA) to provide capital to small firms. SBIC's look for businesses that have proprietary products and products with a high growth potential. They prefer to loan money to young aggressive companies that check out as low risk.

Community Development Companies. These are companies that have been established by local communities to attract business into their community. The most popular type of CDC is one which develops a shopping mall or business development center. An example of the latter would be a geographic area set aside in a community for a commercial or industrial park.

Insurance Companies. An often overlooked source of money is your own insurance company. You may find that you can use your life insurance policy as collateral in obtaining a loan. Insurance companies often have a large reserve of cash and are constantly looking for good investment opportunities.

Suppliers. Depending on the type of business you plan, your suppliers could be an excellent source of money.

For example, a family in a medium-size southern city decided to open a convenience food store. They went to their food wholesaler who made arrangements to borrow enough money to pay for their shelving in exchange for a promise from the store owner that he would make at least 80% of his purchases from the firm, providing the prices were fair.

This same small businessman also went to his meat supplier who made arrangements for him to borrow money to purchase his refrigerated meat display cases.

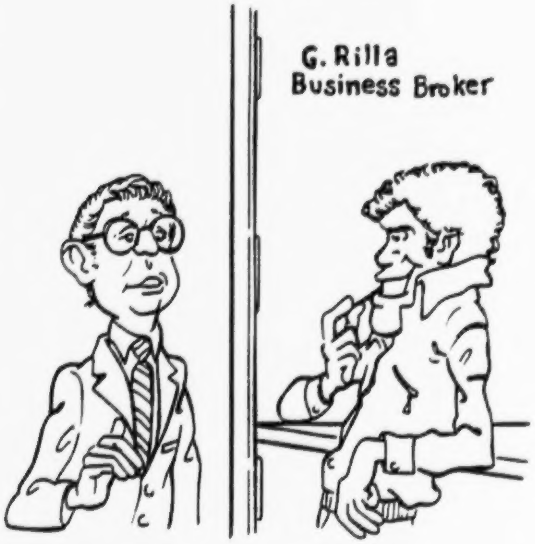
Thus, he was able to purchase all of his display cases and shelving with money borrowed on a promise to purchase a certain percentage of his needs. Further, he signed agreements assuring that he would not be overcharged when making his purchases.

Leasing Companies. One of the newer ways people have been able to finance their business is through a leasing company. Instead of actually borrowing money, you would make arrangements with a leasing company who would purchase items you need for your business, such as a truck, office furniture or equipment.

Then, you lease the items from the leasing company over a certain period of time. Title to the goods or property is retained by the leasing company.

Business Brokers and Investors. Some individuals specialize in making small business loans either on a straight interest basis or a shared equity basis. Often these people will advertise in the classified section of the Sunday newspapers and in the yellow pages of the telephone book.

If you elect this method of financing, be certain you are dealing with someone who is reputable and has a good track record with such loans. If they want a piece of your business, would you want them as a "partner"?



Small Business Administraton (SBA). In most states the SBA has a Lender Certification Program. Under this program, participating certified banks accept the loan application, investigate credit, establish loan limit and approve the loan which is guaranteed by the SBA. The procedure takes three to six days. Non-certified banks may take four to six weeks, if they participate at all in the SBA program. One warning: the SBA is a "lender of last resort". That means you should have already applied for a loan at a bank, with a turn-down. To get SBA loan application forms, call the nearest SBA office (listed under United States Government).

Farmers Home Administration. This government program guarantees loans up to 90% of loan value for businesses located in towns of less than 50,000 population. Amounts borrowed are normally larger than under the SBA, and the borrower must show how his new or expanded business will benefit the community.

HOW TO PUT YOUR LOAN PROPOSAL TOGETHER

No matter which source of money you approach, you will need to sell them on your concept. As we discussed before, you will need a loan proposal as your best tool to tell your story. This is true even if you plan to use a more complete business plan as outlined in Chapter 18 because you need a larger sum of money.

Your loan proposal is so common in the marketplace and so important to your success that you must make the commitment it takes to settle down and write it. No part of it is more than a page or two; so if you break it into bite-sized pieces, you should be able to at least put it into a rough draft stage with a few evenings' work.

Your proposal must fit your needs, wants and background. It must also fit the needs and interests of the investor or lender to whom you are applying for financing.

Be brief and to the point in your proposal. Most will probably spend only 5 to 10 minutes reviewing it. If your key points and plans are not immediately evident and clearly presented, keep working at it until it is tight and well-written.

Guidelines

Here are some simple guidelines to keep in mind as you begin writing:

1. Say it straight. Your loan proposal should be realistic and honest. Anticipate any negative reactions and address them squarely.
2. Match each proposal page to suit your reader. If you are asking for a loan from one group and an equity investment from another, parts of the proposal will change for each.
3. Write in a smooth, comfortable style.
4. Don't rush and don't write when you are too tired to think clearly.

5. Don't overstate figures or purposes.

6. Follow the outline below.

7. Have your loan proposal typed.

Let's look at exactly what your financial proposal should look like:

PAGE	SUBJECT MATTER
Cover Page	Loan Proposal to which bank, from whom, and date
1	Loan amount and use of funds
2	Description of the business (or proposed business)
3	Specific use of funds
4	Catalog pages, literature, quotations supporting the use of the funds, how funds will be spent
5	Projected Income Statement for the business covering one year
6	Projected Balance Sheet for the business after one year
7	Source of funds to be invested in business in addition to the proposed bank loan
8	Personal financial statement of owners
9	List of credit references
9	List of present and past business associates
10	Personal background of applicant
11	How and when loan is to be repaid

Using SMITH'S SNOW PLOWING AND LAWN CARE SERVICES as an example, we have developed a complete BANK LOAN PROPOSAL.

All you have to do to develop your own Loan Proposal is to substitute your own name, business, money needs, etc. in each applicable page as you prepare your own.

Loan Proposal to

FIRST NATIONAL BANK OF ANYWHERE

from

SMITH'S SNOW PLOWING AND LAWN CARE SERVICES

May 1, 19__

Example Loan Proposal
(Page 1)

LOAN AMOUNT AND USE OF FUNDS

Joe and Doris Smith, owners and operators of SMITH'S SNOW PLOWING AND LAWN CARE SERVICES, request a loan from the FIRST NATIONAL BANK in the amount of $20,000. This money will be used as follows:

Working Capital-Payroll	$ 4,000
Pick-Up Truck	10,000
Lawn Mower Purchases	3,500
Office Furniture	1,500
Electric Typewriter	1,000
Total	$ 20,000

SMITH'S SNOW PLOWING AND LAWN CARE SERVICES

SMITH'S SNOW PLOWING AND LAWN CARE SERVICES is being formed by Joe and Doris Smith. The Company will provide lawn cutting and lawn care services during the spring, summer and fall to both homeowners and commercial customers. In the winter, the Company will provide services to these same customers, plowing snow from their driveways and parking lots.

The Company plans to rent a double garage-type warehouse space at the Mini Warehouse located at 3500 East Superior Boulevard. At the outset, Joe and Doris Smith will operate their business from their home and set up an office in the newly remodeled basement of their home.

Recognizing the fact that most people living in the western suburban area of Anywhere own their own homes and also knowing that there is a serious shortage of good lawn care service companies as well as snow plowing services, Joe and Doris are establishing this company.

They have canvassed the neighborhood extensively and have already signed contracts with 22 homeowners for lawn care services this spring. They also have commitments from nine (9) of these homeowners to plow their driveways in the winter and from five (5) business firms to plow their parking lots during the winter.

Example Loan Proposal
(Page 3)

SPECIFIC USE OF LOAN FUNDS

Working Capital		
Payroll	$ 2,400	
Insurance	650	
Office Supplies	350	
Business Supplies		
Gasoline		
Tools	600	
Total		$ 4,000
Pickup Truck Purchase, Toyota		10,000
Lawn Mower Purchases		
2-Toro Riding Mower, Commercial 11 HP Model 30111	2,300	
1-Toro 21-inch self-propelled	1,000	
1-Toro Accessories	200	
Total		3,500
Office Furniture		
1-General Office Desk Model 44	800	
2-General Office Chairs Model A425	250	
2-General Office 4-Drawer Filing Cabinets, Full Suspension	450	
Total		1,500
Electric Typewriter, IBM Selectric		1,000
Total Funds		$20,000

SMITH'S SNOW PLOWING AND LAWN CARE SERVICES
1423 Pender Road
Anywhere, USA 12345

April 29, 19__

QUOTATION NUMBER 7589

2 Toro Riding Mowers, Commercial 11 HP Model 30111	$ 2,300
1-Toro 21-inch self-propelled Mower	1,000
Toro Accessories	200
Total	$ 3,500

Example Loan Proposal
(Page 5)

SMITH'S SNOW PLOWING AND LAWN CARE SERVICES
PROJECTED INCOME STATEMENT
FOR THE YEAR ENDED APRIL 30, 19__

SALES		
Lawn Services	$ 60,000	
Snow Plowing	40,000	
Total Sales	$ 100,000	
COST OF SALES	32,000	
GROSS PROFIT	68,000	
OPERATING EXPENSES		
Salaries	$ 32,000	
Payroll Taxes	3,000	
Rent	2,000	
Advertising	1,100	
Insurance	1,500	
Car/Truck Expenses	5,000	
Telephone	600	
Office Supplies	900	
Repairs/Maintenance	3,000	
Miscellaneous	550	
Depreciation	5,500	
Interest	2,850	
Total Operating Expenses	$ 58,000	
INCOME BEFORE TAXES		$ 10,000

SMITH'S SNOW PLOWING AND LAWN CARE SERVICES
PROJECTED BALANCE SHEETS
AS OF MAY 1

ASSETS

	YEAR 1	YEAR 2
Current Assets		
Cash	$ 5,900	$ 12,500
Inventories	600	1,000
	$ 6,500	$ 13,500
Furniture, Fixtures, Equipment	$ 27,500	$ 27,500
Less: Accumulated Depreciation	-	5,500
Total Assets	$ 34,000	$ 35,500

LIABILITIES & STOCKHOLDERS' EQUITY

	YEAR 1	YEAR 2
Current Liabilities		
Accounts Payable	$ -	$ 1,000
Accrued Expenses	-	500
	-	1,500
Note Payable to Bank	20,000	10,000
Due to J. Tarkinton	9,000	9,000
Stockholders' Equity:		
Common Stock	5,000	5,000
Retained Earnings	-	10,000
	5,000	15,000
Total Liabilities & Shareholders' Equity	$ 34,000	$ 35,500

SOURCE OF FUNDS TO BE INVESTED IN BUSINESS IN ADDITION TO THE BANK LOAN

Mr. & Mrs. Joseph Smith	
From Savings Bank	$ 2,000
Sale of Common Stock	3,000
Loan from James Tarkinton, a personal friend	9,000
Total	$ 14,000

The $9,000 loan from James Tarkinton will be used to purchase a used pickup truck so the Company will have two crews available for lawn care and snow plowing.

The $5,000 from the Smith's will be used to purchase new snow plow attachments and for working capital.

Date of valuation ______________________

- Round all amounts to the nearest $100
- Attach separate sheet if you need more space to complete detail schedule

Assets	Amount	Liabilities	Amount
Cash in this bank	1,650 —	Notes payable banks (schedule 7)	2,500 -
Cash in other banks (detail)		Notes payable others (schedule 7)	
		Installment contracts payable (schedule 7)	
		Due dept. stores, credit cards and others	684 -
Due from friends, relatives and others (schedule 1)		Income taxes payable	
Mortgage and contracts for deed owned (schedule 2)		Other taxes payable	
Securities owned (schedule 3)	13,150 —		
Cash surrender value of life insurance (schedule 4)	6,300 -	Loans on life insurance (schedule 4)	
Homestead (schedule 5)	70,000 -		
Other real estate owned (schedule 5)		Mortgage on homestead (schedule 6)	22,400 -
Automobiles 1982 Skybird	6,500 -	Mortgage or liens on other real estate	
1978 Jaywalker	1,800 -	owned (schedule 6)	
Personal property Furniture	39,000 -	Other liabilities (detail)	
Other assets (detail)			
		TOTAL LIABILITIES	25,600.00
		Net worth (total assets less total liabilities)	112,800.00
TOTAL	138,400.00	TOTAL	138,400.00

Annual income	Applicant	Co-applicant	Contingent liabilities	
Salary	10,000.00	16,100.00	As endorser	
Commissions	15,400.00		As guarantor	
Dividends	400.00		Lawsuits	
Interest			For taxes	5,000.00
Rentals			Other (detail)	
Alimony, child support or maintenance (you need not show this unless you wish us to consider it).				
Other			☐ Check here if "none"	
TOTAL INCOME	25,800	16,100.00	TOTAL CONTINGENT LIABILITIES	5,000.00

SCHEDULE 1 DUE FROM FRIENDS, RELATIVES AND OTHERS

Name of debtor	Owed to	Collateral	How payable	Maturity date	Unpaid balance
			$ per		
			$ per		
			$ per		
				TOTAL	

SCHEDULE 2 MORTTGAGE AND CONTRACTS FOR DEED OWNED

Name of debtor	Type of property	1st or 2nd lien	Owed to	How payable	Unpaid balance
				$ per	
				$ per	
				$ per	
				$ per	
				TOTAL	

SCHEDULE 3 SECURITIES OWNED

No. shares or Bond amount	Description	In whose name(s) registered	Cost	Present Market value	L-listed U-unlisted
$1,000	U.S. Govt. Bond Series E	Joe Smith	1,750.00	1,950.00	
$2,500	U.S. Govt. Bond Series E	Doris Smith	2,000.00	2,400.00	
200 shares	General Biscuit Co	Joe Smith	4,000.00	9,800.00	L
		TOTAL	6,750.00	13,150.00	

SCHEDULE 4 LIFE INSURANCE

Insured	Insurance company	Beneficiary	Face value of policy	Cash value	Loans
Joe Smith	Mutual Benefit Co.	Doris Smith	10,000.00	6,300.00	—
		TOTAL			

SCHEDULE 5 REAL ESTATE

Address and type of property	Title in name(s) of	Monthly Income	Cost Year acquired	Present Market value	Amount of Insurance
Homestead 1423 Pender Rd Anywhere	Joseph and Doris Smith		$ 29,900 Year 1976	70,000.00	60,000.00
			$ Year		
			$ Year		
			$ Year		
			$ Year		

SCHEDULE 6 MORTGAGES OR LIENS ON REAL ESTATE

To whom payable	How payable	Interest Rate	Maturity Date	Unpaid Balance
Homestead First Nat'l Bank	$ 198.16 per mo.	8%	2006	22,400.00
	$ per			
	$ per			
	$ per			
	$ per			

SCHEDULE 7 NOTES PAYABLE BANKS & OTHERS AND INSTALLMENT CONTRACTS PAYABLE

To whom payable	Address	Collateral or Unsecured	How payable	Unpaid Balance
Mesa Dept. Store	8Th + Love, Anywhere	U	$ 42 per mo	462.00
Shoppers Charge	P.O. Box 1234, Jaxon, Tx	U	$ 37 per mo	222.00
First Nat'l Bank	Anywhere	1982 Skybird	$ 100 per mo	2,500.00
			$ per	
			$ per	
			$ per	
			$ per	
			$ per	

CREDIT REFERENCES

First National Bank, 444 S. Fourth St., Anywhere
National Oil Co., P.O. Box 1111, New Amsterdam, NY 10001
Onion Oil Co., 99 Cooper Lane, Grover, OH 54622
Mesa Department Store, 8th at Love Streets, Anywhere
MacAdams Jewelers, 1234 Pine St., Anywhere
American Express Co., P.O. Box 1984, Old York, NY 10001
Shoppers Charge, P.O. Box 1234, Jaxon, TX 76357

PERSONAL REFERENCES

Rev. James Bardy, 9674 Waverly St., Anywhere 555-6262
Samuel Bloom, MD, 4646 Cotton St., Anywhere 555-9273
Robert Krasner, DDS, 1212 South St., Anywhere 555-3546
Mr. Robert Joyce, 7777 Vegas Lane, Reno, IL 312-555-7777
Mrs. Erica Sloan, 2035 No 47th Place, Anywhere 555-9999

PRESENT AND PAST BUSINESS ASSOCIATES

Mr. T.S. Gardner, Trivial Motors, 22 South St., Anywhere 555-3544
Mr. J.R. Williams, President, Acme Electronics Co., Jackson, NE 33325 333-555-6668
Mrs. Shirley Welsome, Manager, Welsome Parts Store, 2nd at South Streets, Anywhere 555-2222
Meyer Lobotsky, Manager, Van's Storage and Transfer, 4900 Branch Ave., Anywhere 555-8932

PERSONAL BACKGROUND

JOE & DORIS SMITH

My first job was driving truck for four summers for Van's Storage and Transfer. After graduating from college, I worked four years for the federal government in statistical surveys. From there, I entered the marketing department of the Jones Construction Company and assisted in bidding contracts. After eight years, I moved to Jackson and joined the Acme Electronics Company doing long-term forecasting and planning for this major electronics company.

After completing 20 years service, I decided to come back to Anywhere and get into business for myself. While deciding what type of business to enter and planning this venture, I spent three years selling cars at Trivial Motors.

Throughout our moves, Doris has found a job teaching in elementary schools and is currently employed at West Elementary teaching the third grade.

We intend to use our business, sales, mechanical and organizational skills to develop this business opportunity. Until the business demands become excessive, we intend to maintain our current positions.

How Loan Is To Be Repaid

Joe and Doris Smith request that their loan of $20,000 be repaid as follows:

PRINCIPAL — Beginning August 1, 19 __ their Business Checking Account will be charged $1,000 a month for the next 20 months until the loan is paid.

INTEREST — Beginning on the 1st day of each month following the beginning of the loan, that the interest for the preceding period be charged against their business checking account.

It is understood that the interest will be on the unpaid balance of the loan.

ASKING FOR YOUR LOAN

Now that Joe and Doris Smith have completed their Loan Proposal, they are ready to meet with their banker. Prior to this time they had done one other very important thing.

Eight years before they even considered having a business of their own, they opened a joing CHECKING ACCOUNT at the local branch office of the First National Bank of Anywhere.

Over the past eight years, they had taken out two small loans from the bank. The first was to finance their automobile purchase of three years ago. Then last year they had taken out a $5,000 loan to remodel their kitchen and breezeway.

While doing this, they became well acquainted with Ted Benson, the bank's vice-president.

When they first considered going into their Snow Plowing and Lawn Care Service, they casually mentioned to Mr. Benson that they might see him for a business loan. Thus, they had paved the way to set an appointment with their bank for a business loan.

If your banking experience has been limited, consider taking all or some of the following steps:

1. Open a personal checking account with a commercial bank.

2. Ask to meet a bank officer when you open your account. Even the president is not too high on the ladder. If he is not available, ask to meet a vice president.

3. Ask to see this same person from time to time when you come into the bank to make a deposit or to cash a check. Simply go over and say "HELLO".

4. If you already have a checking account open, consider opening a savings account.

5. Take out a loan, even if it is a small one, in order to establish a LOAN HISTORY with your bank.

In short, if at all possible, attempt to establish a personal relationship with a specific individual at your bank. This relationship is best established over a period of time. However, if it is not possible, then when you ask for a loan, you simply have to meet with a loan officer.

Make an appointment to discuss your loan and state that you wish to present your loan proposal. DO NOT DISCUSS THE PROPOSAL AT THIS TIME.

Once you appear at the appointed time, present your loan proposal to the bank officer. At that time he will probably ask you some clarifying questions and then indicate that your loan request will be presented to a loan committee.

Or, if you have a loan history with the bank, you may hear immediately. Naturally, the higher the amount of the loan request, the greater the number of questions that may be asked of you.

NOTE: Before you continue, prepare a Loan Proposal for your business or proposed business. At this time prepare only the:

-Cover Page
-Page 1 Loan Amount and Use of Funds
-Page 3 Description of the business/proposed business

In this lesson you have learned:

1. In order to be successful in a Small Business, you have to WANT to MAKE MONEY.

2. In order to be successful in a Small Business, you have to know how to spend money properly in order to maximize your profits.

3. In order to be successful in a Small Business, you have to know how to borrow money.

4. Some of the many sources of loans include:

   -Family or relatives
   -Friends
   -Commercial Banks
   -Savings and Loan Banks
   -Credit Unions

- Loan Companies
- Small Business Investment Companies
- Community Development Companies
- Insurance Companies
- Suppliers
- Leasing Companies
- Business Brokers and Investors

5. Prepare a LOAN PROPOSAL when you need to borrow money. In this way, when you go to a bank to ask for a loan, you are showing the banker that not only are you highly knowledgeable about business but that the money you are borrowing will be spent wisely.

   Further, you are indicating how and when the money is going to be repaid.

6. Get to know your banker or a loan officer at the bank where you do business. Your friendship or personal acquaintance can be just as important to you in receiving the loan as is your LOAN PROPOSAL.

CHAPTER 6

The law and you

Keep it legal from the ground up

You may be one of those entrepreneurs bursting with creative ideas, ready to take on the world, a master of persuasion and other communication skills, or a person with the stamina to withstand twelve or more hours at the office. But you get the shivers when you have to cope with anything more or less directly pertaining to legal issues. You may remember the intimidating encounter you had with an obnoxious lawyer trying to prove that it was **your** fault when some guy rear-ended you at the traffic light last year. Or you may be acquainted with unpleasant divorce proceedings.

Don't skip this chapter just because it's labeled "the law and you". This time it's on **your** side. The following pages are written to reinforce your decision to go into business, not to scare you off. We will try to show you what rights, responsibilities and opportunities there are, how the law can protect you, and how the law can and will provide a solid and reliable framework for your most important business activities.

The following chapter is written to save you time and money by showing you how to avoid legal problems altogether, or to minimize them once they have become unavoidable. You will discover a multitude of practical, realistic tips for facing major legal booby traps and hazards of the business world. We will lead you through some of the most important transactions you have to anticipate as an entrepreneur.

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On the other hand, this chapter is not intended to replace your lawyer. Don't mistake it for that. But you will find that after you have read and understood this chapter you will be more confident about talking to a lawyer and asking the right questions or raising the right objections if some of his or her explanations seem like Greek to you. As an independent business person, you should know there is no mystery in our legal and fiscal system. You can make it work for you. Specifically, you will learn:

- How to deal with a lawyer; what your rights are; how to maintain a solid working relationship with your lawyer.

- How to make an intelligent choice in picking the right form of business (sole proprietorship, partnership or corporation); how to evaluate different forms of corporations.

- How to come up with a successful name for your business; and how to protect it.

- How to act responsibly as an employer.

- What to watch out for when you think buying a business is better than building.

- What to watch out for when you have to deal with corporate landlords.

HIRING A LAWYER

How to Find the Right One

Remember last year's vacation? You, your family and your car in the middle of nowhere. The thermometer showed a solid 90; you felt closer to 95; and, considering the kids' behavior, it could have been 100 or above. Yet you felt confident that at least there would be no problems with the car. Your mechanic had checked it and repaired some minor things. Then he had patted you on the shoulder and told you that everything was fine, that you could even pull a trailer.

When you take your business into uncharted waters, this reassurance, this confidence, can be achieved by knowing that you have selected competent legal help -- a specialist who knows your business and is able and willing to give you advice and

representation when the need arises. Ma Bell may have encouraged you to let your fingers do the walking, but that's not the best piece of advice when it comes to finding the right lawyer. Forget your first impulse of looking in a phone book, law directory or even looking at an advertisement. These sources just don't tell you enough. Almost as questionable are lawyer referral services operated by local bar associations. These services, for the most part, provide only **names** of lawyers and law firms compiled from some list. If they did rank lawyers in qualitative terms -- that's what you are looking for -- they would pretty soon find themselves in hot water, for competitive reasons.

Instead, go out and do some walking and talk to other people in your neighborhood who have run a small business for awhile. Think of your shoe store, tailor, grocer or service station manager. Ask them who their present lawyer is and what they think of that person. Ask them about other lawyers that they have used and what made them change. But before you make premature decisions, go a step further. Talk to your banker, accountant, insurance agent or broker as well. For obvious reasons, these professionals have frequent contacts with lawyers representing business clients. Whomever you ask -- friends, relatives, business associates or your former boss -- make sure you ask for lawyers experienced with **business clients**.

After you have obtained your list of stars, the real fun starts. Shop around. That is, talk to all or most of them. If you set up an appointment and tell them the reason, most lawyers will be, or at least should be, happy to afford about half an hour at no charge for a personal interview. To the same extent that not all cars are equally suited for a specific purpose, not every business lawyer is the right one for **you**. There are a number of distinctive characteristics you should look for. On the other hand, be aware that some issues cannot be addressed right away and that it might be necessary to change your lawyer when things don't go as smoothly as you had expected. As a general rule, you can change your lawyer as easily as you can change your physician.

Characteristics of a Lawyer

In particular, consider the following points:

1. Your lawyer should have the appropriate experience. This means he or she should have had clients in your field. If not, he or she should have experience in closely related fields. In addition, he or she should display a real willingness to understand your particular kind of business. This is not to suggest that you should rely on your lawyer for business advice. Legal counsel cannot be given without background and a dedicated lawyer should be curious about the particulars of your company. One example: A business lawyer with an almost perfect track record of winning cases for her department store and corporate clients may be of little benefit to you because she has no ties to or understanding of the local Small Business Administration office, where some of your most basic legal questions could be answered without any cost to you. This is another way of saying, "Spend your law dollars wisely."

2. Quite important are psychological factors. Mutual empathy and compatability of personalities between you and your lawyer are the backbone of the relationship. If the first meeting makes you really uncomfortable for any reason (the style of the office, his/her demeanor, the whole atmosphere), you are well advised to say goodbye instead of "see you later". Remember: There has been a lawyer surplus for a while now, and you will find the right one if you keep on looking. More than ever, there is variety among lawyers. You will find super aggressive ones, pettifoggers, and shysters. And you will find the more gentle ones who are more interested in justice than in winning at any cost. Also, there are more and more female lawyers around these days.

3. Your lawyer should have time for you. If you are put on hold for days before your lawyer is even willing to consider an appointment, you obviously will take more chances with your business. Equally important, look for someone who not only has time but is also ready to tackle your problems right away. Can you think of anything more aggravating than having a lawsuit hanging over your head or seeing your competitor taking unfair

advantage of you while your lawyer is on the tennis court? You need a lawyer who identifies with you and your business and who follows through immediately whenever there is something to do.

4. Beware of those lawyers who pull out two or three handkerchiefs before they dare to sneeze. They are the ones who give you 395 reasons why something can't be done. In the meantime, you lose clients and money, and maybe even your temper or good manners. You need a lawyer who is able to find a proper balance between prudence and practicality -- someone who comes up with the right solution, anyhow.

5. Last, but not least, the price has to be right. That is, skip the cheap ones as well as those with the golden doorknobs. Look for the ones who charge around $80 to $120 an hour. (In smaller cities and rural areas, rates are lower.)

About Fees and Bills

Once you have decided on a specific lawyer and you are about ready to give him/her the first assignment, make sure you understand how charges are made for various services. If your lawyer is among those who forgets or is hesitant to spell out the financial rules of the game in detail, ask for them explicitly. Don't be bashful. It is perfectly legitimate for you to know what's going on and at what stage of the process you might strain your financial resources. Usually lawyers have three basic ways of charging:

1. Hourly charges, depending on where the lawyer practices and on his/her skills and experience.

2. A flat fee for a specific assignment. Done on this basis, the drawing up of a real estate purchase agreement or contract currently goes for about $200, a simple will for about $100, and incorporating procedures for roughly $1,000. With a flat fee arrangement, you are protected and know exactly how much money to set aside regardless of how much time the lawyer actually spends on the job.

3. When the stakes are really high, a lawyer may propose a contingency fee. This is a percentage, quite often a considerable one, of the amount a lawyer obtains for you in a negotiated settlement or through a trial. At first

glance you might not like this option too well, in particular when the percentage exceeds 30 percent and you anticipate winning close to a million dollars or so. But think twice. Often law is not an airtight, predictable science. If the wind shifts and your lawyer does not recover anything, this means your fee is zero under such an arrangement.

Independent from any basic fee arrangement agreed upon, lawyers usually expect reimbursement for out-of-pocket expenses. These would include mileage, parking, long distance phone calls, postage, transcripts of testimony, among others. Sometimes a case involves a combination of all of the three methods explained above or a very individual agreement will be necessary. This is usually the case in instances that represent a unique problem, one that has not been described in the law books or one that involves a large volume of evening or weekend work.

Even though you may have disregarded the lowest cost lawyer in the first place, do a little computing and figuring anyhow. Someone who charges a reasonable $80 an hour may not be a bargain if he needs two hours for a job that might be done elsewhere in one hour for $120.

By now you have probably realized: Legal fees are not engraved in stone. They are negotiable and what really counts is the bottom line -- the amount you put on the check for your lawyer. In other words, the hourly fee is only a **relative** indicator of a lawyer's attractiveness. Before you make a contract, get the whole story as clearly as you can. One way to get a good deal, to get "high mileage" out of your legal expenses, is to guarantee a minimum number of hours of work during the year. This usually leads to a reduced hourly rate with a discount somewhere between 10 and 15 percent. This means a $100 an hour lawyer may be willing to settle for $85 or $90 an hour if you guarantee 150 or 200 hours of work.

If you do have to deal with large or prolonged cases, don't forget to ask your lawyer for progress reports, either at certain stages (after important letters have been received or sent off) or at certain times (twice a month, for example) of the case. As one part of these reports, look for statements by your lawyer in regard to expenses -- remaining or still anticipated. This, in turn, should help you decide whether to go ahead and intensify your efforts or to bring the case to an early conclusion.

A Word About Ethics or Moral Responsibilities

Law as a profession is, much like medicine, strictly regulated by professional organizations. One aspect of supervision is that lawyers have to operate within a rigid framework of ethical considerations. If they look the other way or attempt to cut corners, they are subject to disciplinary action and they could even lose their license to practice. Since the regulatory agencies (the bar associations) have to rely on incidents of problems or misconduct which are reported, a client has to air his or her complaints officially to get action. On the other hand, if some problems actually develop, most can and will be taken care of by talking them over with your lawyer. The lawyer must keep secret and confidential all that you say in connection with your legal representation. The lawyer cannot disclose any of your information, be it in court or elsewhere, without your consent. Self-interest is no excuse for not giving you proper, unrestricted attention.

If your lawyer has personal business interests or connections that might prevent him from being objective, he must let you know this before he takes on the job. Then it's up to you to decide what to do -- stick with him or look for someone else.

The ethics of law also require that the lawyer is completely competent. This means that if it turns out that he has an insufficient background to do the job for which you hired him, he must either refer you to somebody else or seek the help of a colleague with appropriate experience.

Our legal system is highly competitive; some critics maintain that the real issue is not justice but winning a case. By the same token, our legal system provides that a lawyer must work vigorously for your interests. On the other hand, he or she is bound by basic rules of behavior. Your lawyer may not knowingly use perjured testimony or false evidence. (He may not knowingly make false statements of law or fact in court.) And, among many other stipulations, a lawyer is not allowed to encourage or support activities of the client which are evidently illegal or fraudulent. So, don't make unreasonable demands or expect wonders.

Your Legal Rights as a Client

The rights of a client have been clearly spelled out and officially documented. Among the most important are the following:

1. Receiving clear answers to all questions.
2. Having matters handled diligently and competently.
3. Being kept informed of the status of a case.
4. Receiving prompt responses to phone calls and letters.
5. Being charged fees that are reasonable, i.e. fees that can be defended rationally.
6. Receiving itemized statements of services performed as well as receiving full explanations of billing practices.
7. Being treated courteously by the lawyer and his or her associates and employees. You don't have to accept being talked down to.
8. Having confidential legal conferences, free from unwarranted interruptions. That means you are entitled to object if the conference you paid for is constantly interfered with by unrelated phone calls or other disturbances.

If Problems Do Develop

Your lawyer is responsible for using reasonable care in representing you. If you feel such care is missing:

- have a conference with your lawyer explaining how you see the issue.

- follow up with a letter, repeating your main concerns.

- if you don't reach a satisfactory agreement, consider pursuing your concern on higher levels.

- if you think you have strong evidence of fraud, deceit or negligence, consider suing for malpractice.

- if the problem appears to be more of an ethical nature, i.e. if he or she has violated good taste, manners and professional codes of conduct, you may initiate grievance procedures with the state bar association.

These suggestions should **not** leave you with the impression that most lawyers attempt to take unfair advantage of you and your hard-earned money. Just the opposite is true. As in any other personal relationship, most conflicts (real or apparent) can be resolved through a candid conversation.

SELECTING AN APPROPRIATE FORM FOR YOUR BUSINESS

General Considerations

Being your own boss and going into business for yourself may be only one of the many dreams you have. In fact, giving the orders and running the show may be only partially the means to that end. You may be more interested in the status and the money that is usually associated with it. Instead of spending 15-hour days in the office, you may see yourself more on tropical beaches, as commander of an ocean going yacht, or as a customer of Paul Bocuse and other gourmet restaurants around the world. If all or some of the above applies, you have to be doubly careful in selecting the right form for your business. Doing business as a sole proprietor, or as a partner or corporation officer, is not only a matter of saving taxes, but also a matter of accommodating family considerations.

Before we go into the details, let's look at the most basic questions to ask before you start:

- To what extent are you personally able and your family willing to be responsible for business debts and losses?

- To what extent is your family willing to accept the physical and psychological strains associated with business life?

- What impact would your death have on the continuity of your business?

- How easy would it be to transfer your business, or your interest in the business, to your heirs should you die unexpectedly?

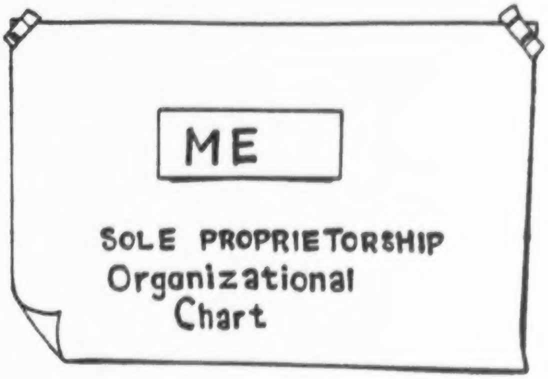
- If your personal goals or national economic conditions should change, how easy would it be to liquidate the business?

- How much information about you and your business are you willing to make publicly available?

Sole Proprietorship

The simplest form of business entity is called "sole proprietorship". Here you are all by yourself; no other owners or partners are involved. You have it all to yourself, the good and the bad. In legal terms, you and the business are identical.

The advantages are considerable. A sole proprietorship involves the least amount of bureaucratic red tape; it is the least expensive arrangement to set up and needs the least amount of paperwork to get started. In many cases, all you need to get going are determination, imagination and a minimal amount of money. Sometimes you also need (or may want) to file an assumed name and to obtain a license. Yet both of these formalities are very easy to take care of. You are your own boss, literally. You are not responsible to a board of directors or associates. You can make decisions quickly. Your decisions stand and are uncontested. There are almost no regulatory or reporting requirements to bother with. From a tax standpoint, you and



the business are treated as a single entity. Business gains or losses are reported on your individual tax return. If you do have losses, they will offset income you have from other sources, such as interest or salary from a part-time job.

However, the biggest disadvantage or soft spot is that you also have unlimited personal liability. If that sounds too abstract, consider the following:

- Your planning was good, the advice you got was excellent. You start your retail business by shelling out about $25,000 for leasing space, ordering supplies and merchandise, and so on. Before you really get started there happens to be an environmental scandal in your neighborhood and people (your prospective customers) leave by the score. There has not been any substantial business income to pay the bills. Now you are **personally** stuck. Your creditors want cash, no returns. You have to sell to a liquidator (if you can find one) at a substantial loss. Beyond your business, you may lose your personal bank account, your car, maybe your home!

- Another equally scary scenario: Your employee is careless and has an accident with the delivery truck, seriously injuring someone. The victim sues for one million dollars. Your employee does not have a penny. Guess whose problem this is if there is not adequate insurance.

- Another disadvantage you should not disregard is that your death may automatically destroy your business. Decades of fame and goodwill, a community landmark may be gone overnight if your wife and your children don't have your interests and abilities. If they had inherited your ownership interest in a corporation or partnership, they would at least continue to enjoy financial benefits from your previous labor.

- And there are more specific disadvantages. The income of the business is taxed when it is earned, whether or not you withdraw the money from the business. If this higher income makes you a candidate for a higher tax bracket and you need to withdraw the money to satisfy the tax person, you will forfeit the opportunity to retain the earnings in the business for expansion. Also, as a sole proprietor you don't qualify for tax advantages corporations get when you offer fringe benefits, such as insurance programs and medical reimbursement plans.

General Partnership

If it is clear from the outset that you will not be alone in your ventures and adventures, you must decide between a partnership and a corporation. Most states have adopted what is called the Uniform Partnership Act. It defines a partnership as "an association of two or more persons to carry on as co-owners a business for profit". No legal contract between the partners is required. Needless to say, you would be wise to have one anyway. In a partnership each partner "acts as the agent" of all the other partners. Each one can "bind the partnership". This means no matter whether Jill, your childhood friend and business partner, signs a $500 or a $500,000 contract on behalf of the partnership, you are liable. It does not matter whether or not you had given explicit prior consent. On the other hand, no one can join the partnership without the permission of all the other partners.

In terms of responsibilities, each partner is entitled to full information, regardless of subject, about the affairs that concern the partnership. The partners are bound by a "fiduciary" relationship. Each partner owes the other the highest possible duty of good faith, loyalty and fairness. The notion of "conflict of interest" becomes quite important: Your partner Jill could not run a competing business as a sole proprietor without your consent.

In many respects, a partnership is not much different from a sole proprietorship. Your personal assets are in jeopardy, in addition to any assets of the partnership. Also, death has a critical impact. Legally, a partnership dissolves upon the death or withdrawal of any partner; thus, its duration is uncertain. As far as taxes are concerned, a partnership cannot take advantage of planning flexibility and fringe benefits offered by a corporation. It does not pay any income taxes. But don't jump to premature conclusions: Profits or losses have to be reported, along with information that determines each partner's share. Now each partner is taxed on his or her share (along with income from other sources), whether or not the money was actually distributed during the year.

Partnerships don't have to be 50-50 deals. For instance, you may have ten slices of the cake and leave just two or three for your companion. Or, if you are bold, you may even consider your mother-in-law as a third partner.

Limited Partnership

Under this type of agreement, you distinguish between general and limited partners as members of your enterprise. A general partner has the same liabilities as a partner in a general partnership. In contrast, a limited partner is more like a stockholder. For him there is no unlimited personal liability. Obligations cover only up to the amount that was paid into the partnership as a capital contribution. Or, in cases of insolvency, the amount that was received back from the partnership.

While this may sound like a perfect solution for your business ambitions, there is a catch. As a limited partner you are not allowed to participate in the management of the business. If you do get involved anyway, you lose immunity from personal liability. The death or withdrawal of a limited partner has no impact on the survival of the partnership as a legal entity. Also, a limited partner faces no restriction if she wants to sell her partnership interest to somebody else. No consent by the other partners is necessary. Since limited partnerships can accommodate many interests, objectives, different characters and personal backgrounds, state legislatures keep a special eye on this form of business. Quite a bit of paperwork is involved to insure a maximum degree of public exposure.

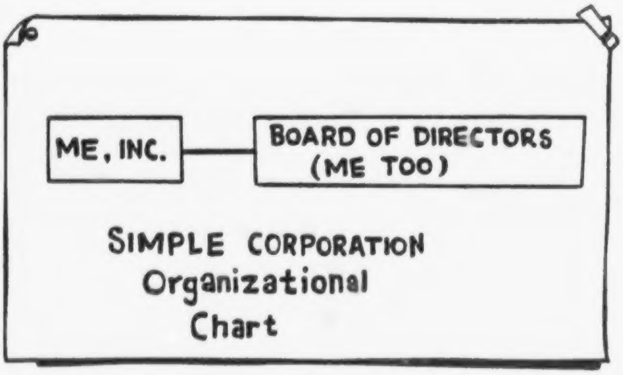
Before you decide to become somebody's limited partner, you should consider that today the main tax advantage of a limited partnership is confined to the real estate area. So for the most part, your choice in controlling or avoiding risk boils down to only one form of business, the corporation.

The Corporation

When the term **corporation** is used, you may think of IBM or Shell Oil. A corporation is in many ways the ideal business form even if your business is tiny in comparison to the ones above. Strictly speaking, however, we have to qualify this statement somewhat: There are certain differences between a public and a closed (closely held) corporation. What we deal with in the following paragraphs is the latter one. This is an enterprise that you own either yourself or with a **few** other people. We base our arguments and reasoning on the assumption that all the owners of the corporation are indeed involved in the day-to-day management. No stock is sold to the general public.

The cost of incorporating is much lower than most people think. It's likely that you will be all set for about $1,000 or less. The most important feature of a corporation is that it is legally a separate entity from the individuals who own and operate it. For practical purposes, this means your personal liability is limited. If you are in serious trouble (bankruptcy, lawsuits, etc.), all you can lose is the money that you have invested in the company. As long as you have acted in a corporate function and have not used the business with the intent to defraud or trick creditors, you are safe. There will be no nightmares involving your house, car or personal bank account. Even if some of your employees have messed up, have been careless or negligent, there is no need for panic. Along the same lines, if your company manages to get a loan which exceeds equity and it cannot be repaid, the bank has to write off some of its money. Yet those instances would be rare. If a bank goes out of its way to help you over the hill, you most likely will have to cosign or guarantee by personal assets. Even though you may own all the stock of the corporation and be its only employee, you and the corporation are still distinct.

Previously, establishing a corporation required six people - three incorporators and three directors. Today many states have changed their legislation to allow for only one incorporator and one director. If your state still operates under the old mode, don't get discouraged. You can effectively "eliminate" the five others by coming up with "straw" people - siblings, spouse, accountant, etc. Anybody you can trust, but who has no money invested in the corporation, and does not participate in its management will do.


ME, INC.
BOARD OF DIRECTORS (ME TOO)
SIMPLE CORPORATION Organizational Chart

More specifically, what has happened through state legislation is the adoption of all or parts of the so-called "Model Business Corporation Act." This decree makes it easier than ever to run a closely held corporation. Formalities have been substantially reduced. In many states shareholders and directors can communicate by unanimous written consent instead of holding formal, expensive, time-consuming meetings. They can also be held by phone.

Legally, a corporation has definite, eternal existence. This means that even if the owner dies, the business does not. It does not matter who owns the stock. And, it's very easy to transfer ownership. If this is done within your family, you might just want to include in your will that your shares (which may actually account for 100 percent) will be taken over by your spouse, child or whomever you have in mind. If later on this becomes a burden for the heir, he or she can give away the shares or sell them.

You might have some misconceptions in regard to corporate taxes. Sure, the corporation must pay income taxes on its earnings. Sure, when you withdraw some or all of those earnings as dividends, you must include them in your individual tax return and pay taxes a second time for the same item. But this in itself is no reason for headaches. With a little thinking and a little advice from your lawyer or accountant, the double-tax issue can be minimized or completely eliminated.

"S" Corporation (Formerly "Subchapter S")

Most small businesses can opt to be treated as an "S" corporation. This is a straight-forward and inexpensive procedure, requiring only one form (Form 2553) to be filed with the Internal Revenue Service. It must be signed by all stockholders. Other requirements are that you must opt for the "S" designation within the first 75 days of any tax year (which means that you are quite flexible and can switch back and forth); that your company has issued only one class of stock (such as common stock); and that there are no more than 35 stockholders. So when it's "your" corporation, you can get away with only one signature. Being the ruler of such a corporation means being free of any corporate income taxes! The corporation serves basically as a vehicle for establishing income (or losses). It only files an **information** return and the income or loss becomes part of your personal tax return.

By going "S", you kill more than one bird with one stone. You enjoy immunity from unlimited personal liability and you avoid double taxation. What's the catch? There are cases when shareholders/owners may actually want to have their corporate income taxed separately. This is especially the case during growth periods, when it is to the advantage of the corporation to retain some of its earnings for expansion purposes. If it does take this route of financing, the benefits or savings result from the fact that the tax rate on corporate earnings is lower than the tax rate on individual earnings. Had the owner declared the corporate profits on his personal tax form, not only would he have been taxed at a higher rate he would not have the advantage of using the money for personal purposes.

Stockholders working for their company are considered employees. As an employee, you are eligible for insurance programs and similar fringe benefits. For the corporation, these fringe benefits turn into tax deductible expenses of doing business. Thus the financial effect for you should be clear: The company fully writes off those costs before paying taxes. As an individual, you may be able to claim only a portion of your health care costs as tax exempt, if any of it.

As you probably see by now, this issue can be a rather complex one, especially when you are determined to use the sharpest pencils to maximize your profits. That's another way of saying, "Have a very good lawyer and/or accountant help you."

SELECTING THE RIGHT NAME FOR YOUR BUSINESS ...AND PROTECTING IT

General Considerations

The proper name for your business is as important as the proper clothes are for you as a director or owner of the business. Just like your appearance, the name of the business is an integral part of your image as entrepreneur. People do see, hear and communicate constantly; and you want to leave this important "first impression".

Depending on your type of business, its name should convey some essential attributes: reliability, aggressiveness, creativity, prudence, or whatever your special image is. Always remember that the name not only has to look right, it has to sound right, too. So if you do come up with a catchy name, say it out loud repeatedly or let somebody else do this. Listen to it carefully. Do a little survey among your friends and acquaintances. This way you will catch double meanings and connotations you might have missed before. Marketing research experts would call this little exercise "administering a convenience pre-test".

If your last name is Jean, you probably won't christen your child "Blue". Similarly, if your last name is Smell or Smellie, you won't name your fast food restaurant "Smellieburger". If confidentiality or reliability are main aspects of your business, you should not use light, high-pitched sounds resulting from combinations of the vocal i -- as in "Didi". Choose low-pitched, solid sounds by combining the vocals a, o, u. Think of the money people: Allstate, State Farm, Prudential, Travellers, Bank of America.

Legally speaking, you can be most creative and clever with your name selection. You can live out your fantasies, so to speak. There are only a few guidelines to observe. If you go corporate, this must be evident in the name. Most state laws will require that you include the terms "Corporation", "Company", "Incorporated", or their abbreviations, "Corp.", "Co." or "Inc". On the other hand, there is a way out, if you insist. Many states allow corporations to file assumed names. In those cases you would properly register your incorporated business by using one of the three terms referred to above, while at the same time filing an assumed name for everyday, public usage.

"Schwartznickel's Pickles and Pumpernickel Inc."...I like it!!

Some terms are mandatory, yet others are prohibited or restricted. If you don't have legitimate, obvious reasons, it will be virtually impossible for you to include such terms as "insurance", "trust", "medical", "national", or "bank" in your application. Also, be aware of names and phrases already in use. Most states will reject a name that too closely resembles one already on file. Not only that, the original owner of the name can take you to court.

A name search is quite tedious, particularly on a national level. Those instances would require legal assistance. If you handle your company like you have handled your children, that's fine. That is, you may actually have the name before the "birth" or incorporation. Most states let you reserve a potential corporate name for about three months. If you discover that somebody else was less prudent than you and operates a business under a name almost identical to the one you have on file -- take prompt action. Do this by phone call, letter, lawsuit -- whatever is needed to stop the practice. A judge will issue a court order; and if you show losses, you will most likely receive damage compensation.

Why and When to File

If you do not incorporate your business and use your full legal name to identify your business, there are no special filing requirements. Ralph R. Randall Realty as a business name would not require filing procedures if Mr. Randall is the owner of the business. In contrast, "Triple R Realty" would have to be registered as would "Randall Realty". The reason for this rather stringent regulation is to provide better information on the identity of the business owner or owners -- not only for the customers, but for business partners (creditors) as well. The important thing to remember is that as soon as you want to use only a part of your legal personal name, i.e. the last name, as your business name, it's technically treated as an adoption of an assumed name and filing procedures apply.

Officially, this filing serves identification purposes only. It does not provide official protection against other persons filing the same name. It's the responsibility of the entrepreneur to take legal action if a duplication of names occurs. However, most states will notify the original filer of later filings that seem to constitute a problem.

On the other hand, there may be instances where your unregistered full legal name is duplicated because someone else (a corporation, for example) claims it as an assumed name. Although the authorities would most likely not prevent this (because they don't have you on their records), you do have certain rights in such a case because it's your name and you have had it longer. It's considered a matter of common law and would largely depend on an individual ruling by a judge.

There is another interesting aspect to the name game: You cannot "sneak in" on a corporate name hoping that the name you intend to file for your sole proprietorship business will be confused by many customers with the name of your famous competitor.

For example, if your name happens to be John Westing and you wanted to name your appliance store "Westing House", you would be in a heap of trouble. The same would be true for names like "The Hallmark Card Shop", "Windy's Hamburgers", "Gen'ral Motors".

An assumed name must be "free of conflict". This means it is already turned down when it comes close to those of corporations. This, of course, is a matter of judgement.

Therefore, you should check with the appropriate state offices **before** you go through the preliminary filing motions.

For additional data on naming your business see Chapter 7.

How to File an Assumed Name

The actual filing procedures may vary slightly from state to state. The following account is based on Minnesota law and should give you an idea of what is involved:

> Get a "Certificate of Assumed Name" form from the Office of the Secretary of State. Complete it; sign it; and have it notarized. Have this Certificate published in two successive issues of a newspaper qualified to publish legal notices in the county serving as the principal place of the business. The ad must appear in the legal notice section, not as a display or classified ad. The notice must contain the same information that is provided on the Certificate.
>
> After the paper has printed the information shown on the front of the Certificate, it will send you an affidavit stating that the Certificate was printed for the specified time. Make sure this affidavit bears an **original** signature and has a copy of the actual publication attached to it. Finally, send the affidavit, the original Certificate of Assume Name and a filing fee to the Office of the Secretary of State. All in all, your total cost for such an application may well reach about $200. If you try to get by without filing, you risk a fine and you make it impossible for your business to initiate lawsuits and other legal proceedings. As a general rule, your filing, if there are no changes, remains valid for 10 years. You will be notified six months prior to expiration.

EMPLOYER - EMPLOYEE RELATIONSHIPS

Your Responsibilities as an Employer

If you know the adage of "the woman behind the man", you should translate it into "the employee behind the boss". Helpers make or break a business. Therefore, you should be familiar with the basic requirements that ensure good relations and compliance with federal and state regulations. Your concern as an employer should center around three basic needs:

1. Keeping certain records (pertaining to wages/salaries, injuries and illnesses).

2. Complying with Human Rights Standards (observing anti-discrimination procedures).

3. Complying with Occupational Safety and Health (OSHA) Standards - assuring safe and healthful working conditions.

Each of these three issues constitutes a major piece of legislation in itself. Each one is the subject of both federal and state legislation. Don't under estimate the importance of state legislation. Often it is stricter than federal legislation and it puts additional obligations on you and your business.

EMPLOYEE
BOSS

Beyond the three highlights above, you should be thoroughly familiar with a host of requirements. Consider your responsibilities toward your immediate employees as well as to their families. Detailed information is available through appropriate federal/state agencies. You may also want to check with your local Chamber of Commerce if you want to see what the scope of voluntary action by your competition is. In particular, you should be aware of the following subjects and distinctions:

- Difference between worker and employee.

- Difference between salaries and wages.

- Persons exempted from minimum wage/maximum hours requirements.

- Definition of overtime and its compensation.

- Child Labor Laws (employment of minors) (Generally, **minor** refers to any person under the age of 18; notwithstanding certain exemptions (employing family members) the minimum age for hiring is age 16. The list of prohibited occupations for minors is a major aspect of the various child labor laws. This is most relevant in the areas of manufacturing and mining, also in restaurant and entertainment.

- The Civil Rights Act of 1964 (applicable for any employer of 15 or more persons).

- The Age Discrimination in Employment Act (applicable for employees between ages 40 and 70).

- The Rehabilitation Act of 1973 (applicable to any employer receiving federal financial assistance and/or federal contracts of $2,500 or more).

- Occupational Safety and Health (OSHA) Standards.

- The Federal Unemployment Tax Act (unemployment compensation regulation).

- Workers Compensation Laws (covering financial benefits for employees with work-related disabilities, illnesses or fatalities)

- Income Tax Laws (regulating computation and withholding procedures)

- Social Security Tax Laws (regulating computation and withholding procedures)

As long as you operate within this framework (or jungle?) of legislation, you are free to make any employment decisions. Of course, you know that the days of autocratic rulership are gone. You should keep in mind that although legal requirements are extensive, they leave many areas of relationships untouched.

It's up to you to strike a proper balance between your interests and those of your employees. As long as you don't discriminate, nobody interferes with your hiring and firing procedures. Make sure you know the legal definition of discrimination as provided by the various laws listed earlier. It virtually covers all minority groups, not only racial minorities.

At the same time, don't operate in a vacuum. You may have competitors who treat their employees better, show better interpersonal skills, offer better salaries. Then there are the unwritten social laws of ethics, etiquettes and other norms and conventions an employee might successfully appeal to when problems or litigation become imminent.

One of the basic rights an employee has upon leaving (voluntarily or forced) is certification of employment. You don't have to write flowery letters of reference or recommendation (especially when there is no justification), but you do have to provide basic data (length of employment, position occupied). Also, you have to provide essential information such as tax withholding (income and social security) certificates.

You might wonder and worry about the topic of "employees' insurance". It's not as complicated as it may appear, especially if you can stick with the minimum requirements. "Insurance" in this context is a somewhat vague term. Often, it constitutes the areas of social security, unemployment, workers compensation, and health and life insurance.

Social security is a federal matter. Unemployment compensation is regulated by both federal and state governments. You will have to check on the appropriate regulations for each.

Workers compensation, for the most part, is regulated on the state level; and you should check with the appropriate state agencies. In some states, for example, it's up to the individual employer to make arrangements with insurance companies. A group insurance policy may be obtained from any private company that is authorized by the state to provide such coverage. Also, there is a state compensation insurance fund employers may join. Making the right choice between those options would require extensive analysis and the cooperation of many specialists, such as your accountant, lawyer and various insurance agents.

Providing health care and life insurance is a strictly voluntary matter. (See Chapter 15.) For competitive reasons, however, you might need to offer at least some coverage. In fact, many employers do so. Since this is the domain of private insurance companies, it takes more than a few pages or hours of work to come up with sensible answers. Rates and conditions vary and numerous combinations between life and health coverage limits are available. Here's where the headaches start if your feeling of social responsibility forces you to act. Once you have opted to provide this type of insurance, many states stipulate certain standards be maintained.

BUYING AN EXISTING BUSINESS

General Considerations

Being the boss, giving orders, does not necessarily mean starting from scratch. It does not mean having to do it the hard or slow way. If you have some money to begin with or can convince a few friends or relataives to pitch in, it may be to your advantage to buy an existing business. It's like finding your dream house: You can build it from scratch, or you can wait until you come across the right one and buy it. In the first case, it's harder on your nerves. In the second case, harder on your pocketbook. Take your pick.

If you do find an existing business that seems like a good deal to take over, try to reach a verbal agreement with the owner on the major terms. Then, see your lawyer right away. He can help you in more than one way. Specifically, besides offering legal protection, he will most likely help you in contract negotiations. He will obtain useful supplementary information and data. He will give you valuable feedback before you leap into the water, before you put your signature under the biggest deal of your life.

In addition to drafting the contract, your lawyer can review and evaluate documents prepared by the seller's lawyer and ask crucial questions that you might not even have dreamed of asking yourself. He can represent you at the closing procedures to ensure that all documents are handled correctly and to your advantage.

Your lawyer can also make you aware of what you need to know about the business. He can help you identify documents and records (existing leases for equipment; contracts for deed; pending lawsuits; federal requirements; and much more). Perhaps most important, he can make sure that you don't sign before the other party has put all cards on the table.

Finally, your representative can give you feedback. He can make positive or critical comments about the chances of your new enterprise. When you don't have family members with relevant business experience, he is the one who can listen patiently and can give objective advice when you spill out your hopes, fears and fantasies for the future. Running a business can mean making good money. But at the same time, it also means taking a risk. You need someone you can rely on; someone who will warn you before a potential risk turns into an actual disaster.

Buying the Company vs. Buying the Assets

Imagine the following scenario: You have your eyes on Smith & Smith, Inc. It is a small, family-run business which manufactures rubber seals and gaskets. For the most part, the company consists of: a workshop (including several machines); raw materials; an inventory of completed gaskets waiting for customers; some office furniture and equipment; and a pick-up and delivery truck. Your initial negotiations indicate that Harold and Howard Smith are willing to sell for about a quarter million dollars.

The issue to be decided is: Should you purchase the corporation itself or only its assets? In the first case, you would purchase all the stock, the shares that are held by the Smiths. In the second case, you would buy only the tangible assets used by the company in its business.

As a general rule, you are better off with the second option because here "you get what you see". And, from a fiscal point of view, you can immediately claim tax deductions for the inventory and other depreciable property. If you decide to take over the stock you may also inherit pending lawsuits against the company and other corporate liabilities. Or, if you are aware of existing obligations, you may not fully appreciate their financial magnitude. It's a good thing to have a lawyer take a close look at your specific situation and recommend what you should do.

Let's assume it was indeed to your advantage to purchase the assets and now it's time for a contract. It should be as detailed as possible. Don't be afraid of being a stickler. List and briefly describe each item: equipment or parts thereof; vehicles; fixtures; furniture; inventory and raw materials (by number, weight or volume); work in progress; existing leases; rental agreements; patents; and real estate. In addition, this listing should also clearly indicate to what extent titles are clear, to what extent you would have to take security interests and other handicaps into consideration. Also, consider a list of items you or the seller want excluded from the transaction. This way you prevent disputes in cases where the seller wants to retain more than originally was agreed upon. And you can avoid getting stuck with "lemons"; or stuck with hazardous waste you could have a hard time getting rid of.

Apart from those lists, make sure you have a written statement indicating who will be liable for the debts of the company at the time of the transaction. If it's you, make sure you know absolutely their full extent. In addition, there should be an agreement stating who is entitled to the accounts receivable. Be prudent and realistic. You may have trouble collecting some or all of the money outstanding, especially as a retailer in poorer neighborhoods.

After you have taken into consideration all those aspects outlined above and have negotiated the "right" purchase price, you should ask for an itemized statement mainly for tax purposes. To give you an example:

Merchandise on hand	$ 80,000
Tangible personal property.	$ 150,000
Lease agreements.	$ 10,000
Good will/trade name.	$ 10,000
Total purchase price.	$ 250,000

That looks easy, but it may turn into one of the major battles in your fight for your own business. You want the major share of the total price allocated to those items that give you the fastest recovey of your investment, i.e. allocated to inventory and depreciable assets. The smallest portion should go to items such as trade name or good will. Those terms designate the "economic potential" of the existing company, i.e. the reputation and stock of clients it has built up over time. Such items can't be depreciated and don't yield any tax benefits until you sell your business. For similar reasons, the seller will want exactly the opposite allocation procedures.

Purchase Price Adjustments

The notion of adjustments to the purchase price becomes especially important if there is a considerable time lag between the drawing of the contract and closing. So in setting out the purchase price, allow for adjustments. For example, make provisions for how to handle increases or decreases in merchandise on hand (inventory). One option might be to stipulate that you will pay up to $50,000 for inventory at closing, based on seller's invoice cost. If the actual inventory at closing exceeds this amount, you reserve the option of purchasing the difference, possibly at a discount. Other adjustment provisions could include such items as pre-payments for rent or leases; utilities or insurance premiums; license fees and property taxes. Another important factor is salaries/wages. If they are paid at the end of each month retroactively and you take over the business at any other time, the purchase price should be reduced to allow for the fact that you are going to pay salaries for periods when the seller still owned the business.

Your purchase contract also should indicate when the payment for the company is due and how it will be executed (by check or promissory note, for example). Try to negotiate and be as creative as you can in your proposals. There are almost no restrictions or limits on the type of terms you can have if the seller consents.

Some transfers involve financing by the seller. Obviously, the number of installments and the applicable interest rate are key items for negotiations. There have been cases in which installments were tied to the profit generated during the first five years under new ownership. In those cases, the seller was willing (or forced) to continue to share in the risk of the business.

Most deals require a deposit when the contract is signed. Pay special attention at this point. Keep the deposit as small as you can and have it in writing that it actually applies against the purchase price. Don't have it treated as a form of fee. If you do stretch your payments over an extended period of time, it's not unreasonable for the seller to retain a security interest in some of the major assets, until payment has been made in full. Corresponding arrangements should be part of the general contract. In such a case, expect limited ownership or usage of major property items.

Contingency Clauses:
Your Last Chance to Chicken Out

Before you close the contract, that is, when it's with your lawyer for a comprehensive check-up, it's wise to do some aditional work on your own. Try to find out if all your assumptions and all of the seller's verbal statements were correct. To accommodate for unpleasant surprises resulting from this type of investigation, you should have a contingency clause in your contract. It stipulates that the deal depends on certain events and/or conditions.

CONTINGENCIES
CO

For example, if you want to move the business, the purchase should depend on actually getting zoning and building permission for the new location. If your business success depends on certain political or economic developments overseas, the purchase should depend on the occurance of those developments. If you want to take over a restaurant, the deal should depend on your passing health tests and other possible municipal requirements. Also, especially when an inventory is subject to rather quick deterioriation and natural decay, the contract should depend on a physical examination of the products, showing that they are in the condition that was claimed by the seller. Finally, you may also want to make your transaction contingent on the approval of your banker, lawyer and/or accountant.

The Closing Documents, or:
Signed, Sealed and Delivered

There are a number of documents you have to watch out for because they formally transfer the business or its assets to you. The number varies depending on type of financing and other terms spelled out in the contract. The most basic document you should obtain is a bill of sale, which transfers title to you for all the assets you are going to receive.

As soon as automobiles and real estate are involved, make sure you get the individual titles for each automobile. For each piece of real estate involved, you should receive a deed and a title insurance policy. Or you should receive an abstract of title which shows that the seller is handing over a clear title to you. You should ask the seller to formally assign any leases to you. Sometimes lease arrangements require the owner's or lessor's consent when possession of the item changes hands. In those cases it should be the seller's responsibility to obtain the consent notes in writing for you.

Finally, you should ask for and examine copies of all existing contracts, especially employment contracts. Ask for assistance and double check with your lawyer to ensure that all books, records, titles and contract copies are indeed obtained.

THE LEASE

References on Lessor

While it may be desirable to own your own home, it might be to your disadvantage to own the building or space for your business. The major reason for a brand new entrepreneur to lease rather than to own property is that he does not tie up capital which he could otherwise use in the production process. Also, with a lease it's much easier to move into a new location if the business is successful and has to be expanded.

But before you rush into any lease agreement, check out your prospective landlord first -- the same way you would check out a lawyer. As a small business entrepreneur, you may have to deal with a landlord who is not a real person, but a rather huge property management firm or investors' association, represented by a manager, director or lawyer. In other words, you most likely will never have access to the owner or the many owners of the space you want to rent or lease.

Such a situation establishes a power balance that rarely tilts in favor of you as a tenant. Quite a few companies interpret their responsibilities and duties liberally. They may not provide enough parking space, may not furnish all the services and utilities they are supposed to; may not repair the air conditioning or heating systems; may be casual on window cleaning and snow removal, and much more.

To find out what company you can trust, which one has a good or at least fair reputation, check for references with the Better Business Bureau and the Chamber of Commerce. And, of course, don't forget to talk to the tenants in the complex or mall you would like to move into.

Once you have made such a pre-selection, your actual bargaining position will be relatively weak. In most cases you will be presented with a printed contract, prepared by the company's lawyers. Obviously, the terms will favor the lessor. Yet if he does have some vacancies or is relatively new in the market, you may have some leverage on a few key clauses. Concentrate on the ones you consider most crucial to your business. When possible, let your lawyer do the talking for you.

Characteristics of an Ideal Lease

The following summary of an ideal lease (from a tenant's point of view) should help you to better identify those provisions that are in your best interest -- try to come as close as possible with your actual lease.

a. The facilities you are leasing are in excellent condition. That is, almost new and well maintained. They provide just the type of space you need.

b. Your contract lists clearly all the common areas that you are entitled to use, such as number of parking spaces, driveways, loading docks, hallways, elevators, storage and waste space.

c. Your contract is based on fixed, flat amount rental payments.

d. No security deposits are required.

e. The rent is at least equal to, if not lower than, comparable space in a similar location.

f. You have a short-term lease (up to two years) with the option to renew, without clauses that stipulate periodic rent increase.

g. The lessor does not object to alterations you consider necessary. He allows you to remove any improvements upon your leaving.

h. The lessor is responsible for maintenance, repairs, utilities, taxes and insurance.

i. You can use the space for any (lawful) purpose.

j. You can sublet or assign the lease to someone else without prior permission.

k. There are minimal or no restrictions on your promotional activities.

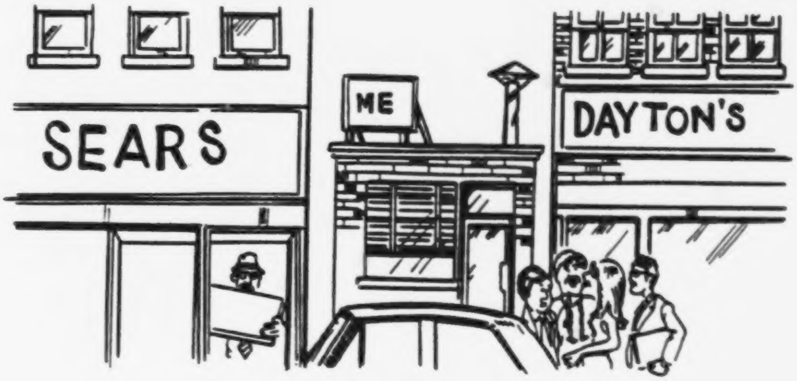
l. The lessor won't accommodate direct competitors of yours, at least not the ones that are economically stronger than you.

m. There is a contingency clause allowing you to cancel the lease (if the premises are substantially damaged by fire or other events, or if your business is less successful than you initially anticipated).

Remember, these are only guidelines. You will have to consider what is most important to your business then hold the line on those things in your negotiations.

The Shopping Center Lease

If it takes a fight to obtain a favorable lease in general, it takes a battle to obtain a good shopping center lease. Only major stores or chains have the power to negotiate. On the other hand, you might want to give it a try, particularly in those cases where you can appeal to "common sense" and "fair play".



For example, imagine that you want to move into a specific shopping center because you anticipate that the national department store already there will generate millions of customers who have to pass your location. In this case you should shoot for a provision that allows you to terminate your obligations if the "big boys" cease their operation there. Similarly, in cases of new shopping centers, reach an agreement saying that you are not obligated to begin business or pay rent until the major tenants have opened their facilities.

In addition, you may want to have your opening coincide with the start of your best selling season. This way your income is high during the first weeks of your operations. If nothing else, this should give you a strong psychological boost.

If the center has not even been built, ask for a site plan to be part of your lease. You should make sure that the space and size of the location you initially selected cannot be changed or rearranged without your consent. Also, make sure that other changes that might be made will not interfere with visibility and/or access to your location.

Besides those points, one of the most crucial factors is the type of payments you have agreed on. Generally, there are four different methods or ways of paying rent:

1. **The flat rental payment:** Your monthly or yearly payment remains the same over the entire lease term.

2. **Periodic increases in payment:** The period is usually defined as one year. Under a three-year lease you might be expected to pay a total of $12,000 during the first year, $14,000 during the second year, and $17,000 during the third year. Make sure you understand, and agree to, the basis for increases.

3. **The net lease:** You pay not only the basic rent as stated in your contract, you also pay taxes, insurance, repairs, and so on. Obviously, under such an agreement **you** -- instead of the lessor -- bear the risk of (substantial) cost increases and of not knowing what the real cost and/or benefits of the lease are.

4. **The percentage lease:** This method is equally tricky in terms of financial planning and cost control. Generally, a percentage lease specifies a minimum amount the lessor is entitled to, regardless of how well you do

in your business. This portion is called "base rent". In addition, you have to pay a percentage of your gross sales. If you are forced into such an agreement, you should see that the percentage clause takes effect only on sales over a certain (relatively high) amount. You should also see that there is a cap -- an upper limit -- on the amount that has to be paid under the percentage clause.

For example: The lessor might receive $12,000 a year as base rent. If your gross sales exceed $250,000 a year, he might be entitled to 3.5 percent of those sales, but to not more than a total rent of $20,000. To make things even more delicate, be cautious in defining your gross sales. In particular, you may want to have excluded: sales to employees; sales taxes; refundable deposits; charges for deliveries and installations, etc.

Improvements and Repairs

As you may have gathered from the preceding information, improvements, repairs and maintenance, may rarely be bargaining chips at your disposal. On the other hand, if you are indeed responsible for most of those items, you would want a lease that spells out your responsibilities in detail. You don't want to carry one ounce more than necessary. Therefore, your lease should address the following questions:

- What condition will the premises be in when you start your business?
- At what times and to what extent, if at all, will the lessor provide promotional support for your business?
- Must your improvements and the contractors you select for maintenance be approved by the landlord?
- Who takes care of the common areas (restrooms, sidewalks, etc.)?
- Who takes care of the structure and the exterior of the building?
- Who takes care of repairs and reconstruction due to weather, fire, earthquakes, riots, etc.?
- Can you recover your investments for improvements?

If you need consent and approval of the lessor for a number of items, he should be required to defend his decisions reasonably.

Options to Renew

An option to renew a lease is especially desirable if you are somewhat uncertain about your business. It works well in cases where you think, "If it doesn't work out for me to be my own boss, I can quit or sell out," or when you really anticipate a smashing success and you might have to move into bigger facilities earlier than originally scheduled. Under an option clause, you **may** extend your lease beyond the initial term; but you don't **have to**. Generally, such a lease will specify how far in advance you must declare your intentions (usually 90 days before expiration date). If your original lease covers three years, you might want to reserve rights for an additional three or four 3-year terms. Ninety days before each period you let the lessor know whether or not you want to stay, that is, whether or not you want to take advantage of your option. But beware! If you toy with the thought of covering several more years by renewal options, the other party will insist on periodically increasing the rent. An option is not an automatic tool to beat inflation.

Usually, rent adjustments are part of the option clause and thus spelled out in advance. This way, you have a sound basis for calculating your cost. However, if you are in a negotiating position on this item, you might want to provide that the rent will be increased only at the time of each renewal.

Stay clear of any provision that says "the rent will be renegotiated at the beginning of each renewal period", or something to that extent. Most often an appropriate, mutually satisfying agreement cannot be reached then. Matters wind up in court. There, the judge will listen to expert testimony to determine a "reasonable rent". Such a solution will be time consuming and costly, to say the least.

Disputes, or: Their Opinion Against Yours

Although a well designed lease agreement minimizes chances for serious disputes, you have to anticipate some problems. In recent years, fortunately, tenants' rights have increased substantially. So, as a tenant, it's likely you can get off the hook even if the language of your contract seems to indicate otherwise -- in particular, when "fair play" or "equal economic chances" are at issue. There have been cases where judges have found it appropriate for a retailer to withhold rent because the shopping mall owner had violated his contract by leasing space to competitors. Judges have also ruled in favor of tenants wherein mall operators had arbitrarily curtailed parking space in connection with expansion and construction projects. Naturally, each case is different; but good legal advice does pay off.

Another issue that frequently intimidates tenants is the uncompromising language or paragraph that apparently gives the lessor the right to enter your business premises and regain possession if you don't pay your rent on time or fail to comply with some provisions in your lease. In most states the lessor has absolutely no chance of evicting you before going to court first -- despite what the lease says. Thus, if stormy weather is indeed inevitable, you will have plenty of time to prepare your case, to get your facts. Court hearings don't happen the next day. On the other hand, don't forget basic principles. Give the Property Management Company at least a chance to rectify apparent problems through personal (verbal or written) communication. If you think a letter is necessary, deliver it in person or by certified mail. Do this in the early stages of the disagreement. Don't wait for weeks or months. If a frank discussion or an explicit letter (perhaps some give and take) don't get results, that's when to take legal action.

SUMMARY

Lawyer Relationships

- The most appropriate way to find a suitable lawyer is to talk to other business people or associates, to solicit specific experiences and recommendations.

- Before hiring a lawyer, make sure that he/she has experience with the sort of problem you are facing; that there are mutual harmony/sympathy and compatibility of personalities; that he or she is readily available; that he/she is not bogged down with urgent matters for "more important clients"; that the fees are competitive.

- You are entitled to an itemized statement or invoice, as well as a full explanation of billing practices. It is appropriate to ask for progress reports when lengthy issues are involved.

- Most disagreements between you and your lawyer can and will be resolved through open talk. In that rare case when there is a stalemate and you have the facts on your side, don't be afraid to initiate a malpractice suit or grievance procedure with various agencies.

Business Forms

- Most entrepreneurs start out as sole proprietors, partners or by establishing a closed corporation.

- Selecting the right form for your business requires close cooperation and coordination between you, your lawyer and your accountant.

- The main disadvantage of a sole proprietorship as well as a partnership is that the owners face **unlimited personal** liability if the business goes belly-up, or if threatened by a substantial lawsuit.

- The main advantages of forming a corporation are limited personal liability and flexibility in tax matters.

- Incorporating has become rather easy in recent years, making it an ideal form of business even for small businesses. One caution: Government regulation calls for more paperwork when you incorporate.

The Business Name

- As soon as you use anything but your **full** name for doing business, you are required to file an assumed name.

- Filing an assumed name **does not** protect your name against usage by others.

- The business name is an intergral part of your overall image. Choose it wisely and do some pretesting before you make a final decision.

- In most states corporations are allowed to file assumed names, i.e. you can disguise that your business is in fact incorporated. That means, you actually have to file twice -- for the corporate name as opposed to your own, plus for the assumed name of the corporation.

Your Role as Employer

- Employment issues are regulated and monitored by state and federal agencies.
- There are specific laws regulating employment of minors.
- The issue of discrimination extends beyond racial minorities. Become familiar with the entire spectrum.
- Your contributions as employer to social security and unemployment insurance are mandated by federal and state legislation. You do have leeway in deciding on health and life insurance matters.
- Tax law stipulates specific dates for submitting withholdings on employees' salaries and wages. Failur to comply carries stiff penalties.

Buying an Existing Business

- Any purchase contract should be prepared or at least carefully examined by your lawyer and/or accountant.
- If you take over a corporate business, it's usually better to buy the assets from the corporation rather than to buy the corporation itself.
- The purchase contract should contain a list of property that is excluded from the transfer.
- Some small business transfers are financed by the seller.
- Allow for contingency clauses in your purchase contract.
- If you buy a business from a corporation, the previous owner(s) should sign both as individuals and as officers of the corporation.

The Lease

- Legally, all terms of a lease are open for negotiation, but your corporate landlord will most likely be the stronger partner.
- Have a lease in mind that is ideal for you when you attempt to get concessions from the lessor. Don't jump into or accept just any lease.
- If you negotiate a percentage lease, make sure the definition of "gross sales" is not unduly unfair to you.
- If you consider options of renewal in your lease, make sure that periodic rent adjustments are negotiated in advance.
- Look for a lease that protects you from having to cope with competitors next door.
- If the lessor wants to take you to court, that's easier said than done. Don't be unnecessarily intimidated by some of the stern language in your lease.

* * *

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CHAPTER 7

Let's get organized

Check all the nuts & bolts before you fly

Overwhelmed? It's time to sort things out. Sit Back. Think. Review what you've already accomplished. You've done your market research and selected your site. Financing should be in place by now. Do a double check on "The Law and You." You'll be referring to this regularly.

It's easy to be overwhelmed, but it's a lot easier to organize. You've been running in the fast lane in your enthusiasm to start operating. Your mind is racing ahead towards production, delivery, profits, recognition. Your spouse is going to love you again and your friends will be impressed.

Perhaps. You're allowed to dream - this is what got you started in the first place. But for now, order is in order.

Keep it simple, make lists (they're fun to cross off). Get a legal pad and use a pen. (This suggests authority - and you have it.) The decisions ahead are yours, so start.

In this chapter you will learn that going into business involves many details. The only way to get them out of the way successfully is to tackle them one at a time. Perhaps we've omitted a few that apply to you, or covered some that don't apply. Nevertheless, we have included the essentials - the physical elements - of starting your business.

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There is only one way to go about it. And that calls for an organized approach.

CHOOSING A NAME

Your business name will be with you a long time, as is your personal name. The difference here is that you get to choose it. Unless you're buying another business where name recognition is important to keep customers, your immediate concerns will be keeping the name descriptive, appropriate and memorable.

Using Your Own Name

There is a strong case to be made here. Your personal identity is already in place and your business name can be a continuation of this recognition. If you decide to use your own name, it should be no longer than three syllables, or about ten characters. This is a practical consideration because the name will need to fit on signs, letterheads, advertising, invoices, and so on. A hyphenated name is lengthy and confusing. Hughes-Waterman, for example. Is this a partnership? Your customers may ask to speak to Mr. Hughes or Ms. Waterman and this will need an explanation. If you choose your own name, be sure you don't have to explain it.

If your own name is also descriptive of your product or service, so much the better. Tradesmen have historically gone this route. Look at all the Shepherds in the phone directory. They may not be herding sheep any longer, but the name described their occupation at the time. Your name doesn't need to be descriptive of your product or service, however. Well-known corporations started with a family name. The Fords built cars, the Pillsburys milled flour. The key here is that the product was good, affordable and met a customer need. After credibility has been established, the name continued to represent quality and service.

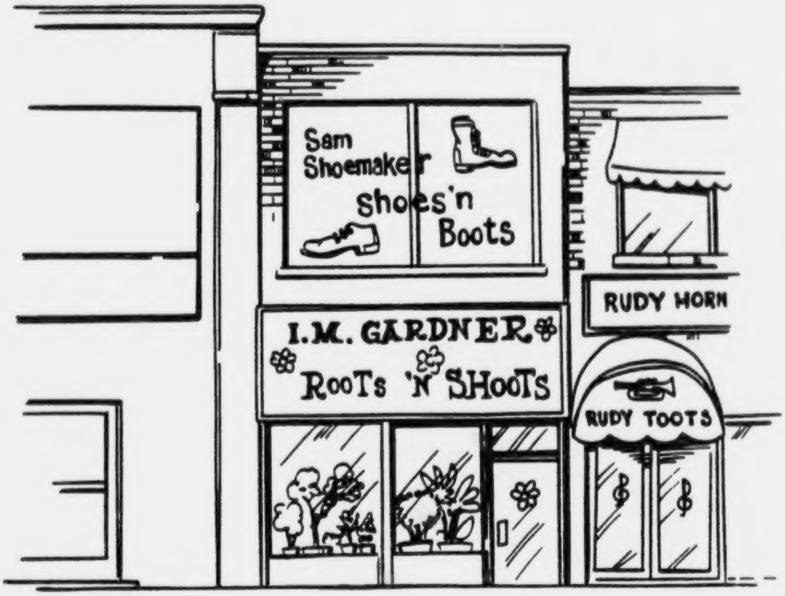
As you think about using your name, try not to get carried away with making your mark in history or handing the business down to your children. We are here to get organized, and choosing a name is a start. You can change your mind, and you might, but the decision deadline comes when you're ready for signs, printing and contracts.

Choose your own name if:

- It's appropriate.

- It fits.

You like it. (If you don't like it, try your middle name.)



Descriptive Names

Descriptive names should be appropriate for your line of business, whether you'll sell a product or service. Following are some cautions when considering alternatives:

1. **Don't start your business name with the letter "A".** Too many do, and it's not going to get you first place in the phone book.

2. **Don't use an initial followed by the name.** People need to find you. Try looking up B. Dalton, B. Nathan, B. Dahlstrom. Do you look under "B" or "D" or "N"? The telephone company (whichever one is printing the directory when you read this) has rules about this sort of thing, and they are generally not to your advantage. "The Telephone Company" will use its own alphabetical system.

3. **Avoid apostrophes at the beginning of the name.** Apostrophes can be standard in many languages, but you're not international yet. 'L Hotel Sofitel may be an appropriate name, but do you find it under "L," "l", "H" or "S"? Don't throw away all the work you've done on site selection by confusing customers trying to find your name.

4. **What's the name of the store next door?** As in site selection, check your competition.

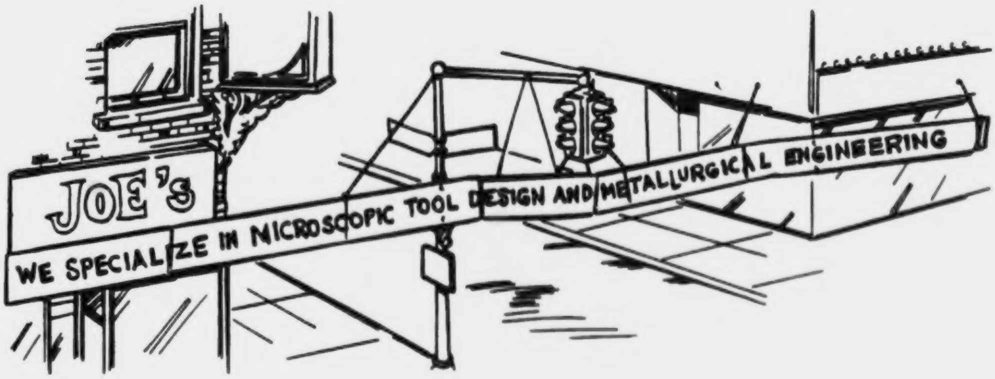
5. **Trendy, Clever or Classic: Which is for you?** There is a great temptation to be trendy or clever, and this is recommended only if you plan to be in business a short time. For you who don't want to invest your sign money in "Going Out of Business" banners, stay Clear and Classic. If you're into landscaping which features decorative rock gardens and your name is Agnes, don't call your business "Rocks of Agnes." Customers may smile but decide to pick up their rocks on the north shore of some lake.

6. **Sub-Heads.** You may need a sub-head when you're starting out, such as -

   Timely Data

   ...Specializing in Computer Time Sharing

   While you do need to give consideration to space limitations and explanations, prospective customers need to know what you do. Warren Products, for example, is just not going to work.


JOE'S
WE SPECIALIZE IN MICROSCOPIC TOOL DESIGN AND METALLURGICAL ENGINEERING

7. **The Use of "...By".** This is a combination of your business description with personal identity and can lead to exclusiveness. If this prestige is in line with your goals, it will work. It will also keep your business small and elite. Fashion designers use this a lot, and some have grown into multi-million dollar companies. But there are limitations. It would not be appropriate for you to name your hardware business "Tools by Tony," for example. All things considered, especially the growth of your business, avoid it.

8. **Geographic names are good for identity.** But state, city and county names can place you in a very large crowd. The name "Illinois Iron Works" not only suggests that it operates in the entire state, but that it is located in the directory somewhere between "ILLINOIS, State of," and "Illinois Illustrations," a graphic arts firm. Customers may tire of this search.

   You can, of course, turn this into sales by deliberate intention. "County Seat" is right there where it's supposed to be - near your county or any county. And you can find it under "C," not "S." The rule here is to be careful: You are establishing your name, not capitalizing on it. Remember, too, what you are selling. Jeans are not listed under either "C" or "S."

   If you still like a geographic name, use a small trade area, already identified. Street names, intersections, riversides, valleys - all are good if customers can visualize the area. Real estate developers have a lot of fun with this. Let them. Don't try to be the leader in naming locations. Just name your business, please.

If you like rules of thumb, here's one to remember:

> The simpler, more appropriate and descriptive your business name, the less you need to spend to fix it in the minds of your prospective customers.

Keep Your Name Legal

Even if you choose your own name, you may not be able to use it in business if it infringes on a competing business' established market. The important thing is to check your competition for duplication in both personal and descriptive names. Eyeballing your trade area will help. Checking the yellow pages will help. Then call the information operator to see if someone began using the name since the directory was published.

Finally, to find out if the name you have in mind is available, call your local or state office which grants such authority. In many states this would be the Department of Secretary of State or the Department of Commerce. Or, if you prefer to have someone else do the legwork, and have a few bucks to spend, call your lawyer for a trade name or copyright search.

There is always the chance that someone whose business is not well-known or was never established had the idea first. They could try to cash in on your success, claiming infringement. This is not common but not to be disregarded. You may have heard of such stories in the news, but it is not recommended that you publicize your business in this way. You will find details on the right way to publicize your business in Chapter 9, "Publicity and PR."

For now, file away your legal pad with its jottings - except: Where are you going to file it?

OFFICE EQUIPMENT

Your filing system is the most basic part of organizing. It needs to be done and, if done right, can keep you from going crazy. In time you will have clerks, secretaries and computers to do this for you, but right now you have to **put it away** yourself. Remember, too, that as you add employees they will also be putting things away - or hiding them or losing them - and you may find that the first thing you have created is not a product, but a great big mess! Besides, the IRS and your accountant do not look kindly on chaos, and their charges seem to have a direct relationship to your organizational skills.

When you're starting out, you won't want to tie up a lot of your capital in office equipment - especially for large purchases where design and state-of-the-art change constantly. Items such as typewriters, computers, telephones and copiers might well be lease items. Below are some suggested guidelines which may be applied, where appropriate, to your business. Some will be easy choices.

1. **Buy** a file cabinet. Just one. It doesn't matter whether it's two or four drawers. The computer is not going to replace this immediately, and you need one **now.** This is a first step and you can cross it off your list.

Buy an appropriate number of hanging files and manila folders, and label them by subject, not alphabetically or numerically. This is one instance where you start big. The sections in this manual can give you an easy start. "Bank," "Property," "Legal," "Vendors," etc. are good generic classifications.

You're starting out small by using categories. (See Filing Tips page 24.)

2. Desk and Chair

You may not feel you're really in business until you have your own desk and chair. These are most likely "buy" items - but buy wisely. Think through your exact requirements. Then think about your budget. If you can afford $600-$800 for these items, a visit to an office supply store is in order. Otherwise, consider saving several hundred dollars by buying used furniture. At the low end of the cost spectrum, watch your local newspaper for garage sales featuring these items.

Because of the many hours you'll spend in your chair, make sure the one you buy is comfortable, sturdy and built to support your lower back. Is it adjustable? does it allow your feet to rest on the floor without cutting off the circulation behind your knees? Does it tilt with proper tension? Can you lean in any direction without falling?

3. Postage Meter

Lease - you don't have any choice. You do have a choice, however, as to when to start using one. Put this item far down on your list. Use stamps and a small scale until your mail volume warrants a meter.

When you're ready for a meter, keep in mind the post office will charge a deposit. This remains in the meter and cannot be used for postage. You pay for postage over and above the deposit.

There are a number of manufacturers and models to choose from. The smallest and cheapest is a hand-operated model that takes one envelope or strip of tape at a time and is good for quantities of 10-50 pieces.

The next step up is a small electric, automatic feed model good for mailings of several hundred pieces, and should keep you operating until you're ready for a collater, sorter or other more productive equipment. When you decide on the type you need, the manufacturer will arrange for a postal permit and the amount of deposit you must keep in the machine, based on your anticipated volume of business.

Note: If you plan to send out 200 or more pieces of mail at one time, check with the post office for bulk mail rates. There is an initial cost of $40 for a permit, which is renewed annually, and you have to sort your mail by zip code. There will be some savings, however, if you do frequent mailings of this size during one year.

4. Typewriters

If your business is going to be a 1-5 person operation, you will probably need only one typewriter, and it could be anything from a used manual type to a small electric portable. This would serve the purpose for letters, envelopes, memos, invoices, etc., and won't take up a lot of space. If this is all you need, buy one. It's not a large investment and you can always use it.

If, on the other hand, you'll be doing a great deal of outside communication with other businesses, professionals, or community organizations, your presentation to the public must look professional and in keeping with your attractive letterhead. In this case, and if you can still get by with one typewriter, it's possible to get a new IBM, Olivetti, Xerox, SCM - to suggest a few - for around $1200 including a service contract.

If your business requires more than one typewriter, ask yourself if a word processor would be more productive. It all depends on what is appropriate, but in the case of typewriters or word processors where new models are appearing monthly, you may be better off leasing and upgrading when necessary. Be sure that the lessor is reliable and has a good business reputation. You don't want to get stuck with either the payments or equipment you don't want if the company goes out of business. Selective shopping and suggestions from a good secretary should help you make this decision.

5. Cash Registers

If you're doing business with invoices and statements, you obviously don't need one. Even if you're in a small retail operation - flowers and vegetables, home-baked foods, crafts, rental equipment, beauty shop - you can get by with a cash box and an adding machine. You will need to keep records manually, including sales tax, but this can save you money until growth indicates a cash register.

Plan 6-8 weeks ahead of time. Allow time for installation and training if you'll need a register on the opening day of business. Get one with a receipt for customers and a separate tape for your own records. It should compute change and calculate your sales tax. You can use a sales tax chart and add in the amount, but it is easier if the machine does this for you. It will also speed up a line of customers which, in itself, is worth the cost for customer satisfaction and repeat business. And should you advertise a sale, you don't want to get caught short of help and equipment at the checkout counter. We've all experienced these disasters as a customer, and most of us won't go back for a repeat.

HURRY AND FINISH THOSE CIGARS GRANDPA! DADDY NEEDS THE BOX FOR A NEW CASH REGISTER.

Anticipate your volume of business, get a cash register that keeps records and speeds your customers along, and make them glad they stopped to buy.

6. Calculators

You can fool around with your pocket calculator as much as you choose, but very soon - probably while you're working on your business plan - you will need something with a tape. Buy a small 10-key electric used one, and it will serve you well for the time being.

Shortly before you begin operating, you may need something more sophisticated. Personal computers are great, but be sure that yours earns more than it costs. There are a variety of programs to fit a variety of businesses. Get some information from trade journals, ads, friends, and, finally, sales people to determine what is appropriate for you. One good thing: You're starting at a time when the choices are extensive and the prices are very competitive. It's a buyer's market. Again, choose a reputable manufacturer. There are many new companies, as well as established ones, that are coming out with products that may not last.

As to 'buy vs. lease,' personal computers are a "buy" item. As your business grows and you're ready for computer time sharing, word processing, inventory control, etc., this type of system can be leased.

7. Copiers

Be sure you need one. If you think usage will be occasional and small, use carbon paper or a coin operated machine when necessary. If you do buy or lease one, get a new or used model with a service contract. All those ads about copy machines breaking down are true. Will you need a reduction feature? Automatic feed? Collation? Order only what is appropriate for your needs to save money.

8. Communications Equipment

Telephone systems and equipment can be one of your best links to customer sales and service. Your telephone can find you new customers at low cost, find you when you're needed, hook up with computers, screen messages - just ask any systems salesperson.

Before you do, however, there are some gray areas to be covered.

First, use your home phone as long as you can. You may want to add a line with a hold button; a call-forwarding feature; call waiting; a recording. Any of these can be useful. If a member of your family will be answering the phone, be sure they are adult and that there is no background noise. (A point for separate office space at home.) Call-forwarding is excellent because you can be reached anywhere, and it costs only about two dollars a month. Figure out what's appropriate for you and your potential customers.

Setting up communications for an office or store is another matter. About six months before your business site is ready for occupancy, (three months if there is no construction involved), start to compile information on the kinds of equipment you will need and where it will go. Your construction people or landlord will need this information. The initial equipment will depend on:

- The size of your store or office
- The number of employees
- Volume of calls
- Expansion capabilities

Having hooked up with your local service, the only question you need to answer now is how much long distance calling your company will be doing. If you will be regional or national, then a careful study of AT&T, Sprint, MCI, Allnet and others who may be coming into the market is important. You will want not only a cost-saving system, you will also want quality, service and clarity. Many of the new systems "fade." Many are not yet designed to reach certain parts of the country and some systems' savings are available mostly after regular business hours. Find out the frequency and type of billings. Check them all out.

Lease vs. Buy

For all major kinds of office equipment, such as word processors, computers, electric typewriters, copiers, etc., you will need to decide whether to buy them outright or lease them.

This does not limit you to only two choices - buying or leasing - you have several options available. For example:

- You can buy the equipment, paying for it with cash.
- You can buy for terms, such as an installment contract.
- You can lease with an option to buy.
- You can lease without the option to buy.

There are other terms and options available to you, also. Any reputable company will be happy to explain all your options and recommend which make the most sense for your business. Review them carefully and consult with your accountant if you're at all unsure.

Terms are negotiable and prices will vary for similar types of equipment. Shop around.

A Word About Service Contracts

Whether you operate out of your home or elsewhere, if your business requires any high-tech equipment such as a computer, by all means invest in a long-term service contract. Once the warranty expires, customarily in 90 days, it's uncanny how those machines seem to sense it and go into a swoon. A service contract may seem expensive at the front end, but consider the advantages:

- You may save a lot of money in the long run.
- You will have more peace of mind.
- You will avoid a business stoppage in the event of a major expensive breakdown you can't afford.
- You will keep your equipment running longer and more efficiently because of the preventive maintenance program, and you'll call for service as needed, rather than procrastinate.

If you are not familiar with any suppliers you're considering, we strongly recommend checking out their reliability first. Ask them to furnish names and telephone numbers of several customers, then take the time to call them. Find out if their service, especially, is reliable, thorough, and on time.

Additional data on purchasing is covered in Chapter 11.

THE HOME OFFICE

As you've been planning your business so far, you've probably been working out of your home. This is very good experience to help you decide whether you'd like to continue operating there.

There are a lot of advantages, but space requirements for your product or service will be the key factor. The dining room table is not going to work. Even if yours is a service business requiring little equipment, you will need at least a den, attic, basement, garage or other space that can be closed off. This is not only for you and your family's peace of mind, it's required by the IRS. If you're single, of course, you may use your entire living space as an office. The only tests required are those of your comfort and how many customers will be calling. But if your residence is primarily just that, you must consider "set-aside" space.

HOME
SWEET
WAREHOUSE

The financial advantages of a home office are the tax deductions. You are allowed to claim a percentage of your household expenses as business deductions. The proportion is based on the size of your shop or office in relation to the total living space. These expenses include utilities and telephones, improvements, maintenance, insurance, snow removal and lawn care.

You will also save time and money in travel costs, clothing, lunches, parking. The question is: Will you work productively there?

Many people can discipline themselves to a routine. Perhaps your business doesn't lend itself to routine. But, if you're the type of person who needs the sounds of people and the activities of an office setting, the transition could be difficult. By all means, if you work at home, get out regularly. You will need the stimulus to maintain your enthusiasm.

You must also check the local ordinances in your area before you operate at home. Some of the common ones are noise, pollution and traffic. Your common sense can guide you, but your lawyer and the police department will tell you for sure. Consider signs. Will your customers need to find you. Signs are some of the most strictly enforced codes in communities and one small sign over your doorbell may be all that is allowed - and it may be all that is necessary. Find out! You may need or want to add "Beware of the Dog," "No Trespassing," "Private Entrance," "Private Parking," or some type of directional sign. Remember, you're in a residential area and what your customers may be looking for, your neighbors may not like. Contact your Director of City Planning for the codes.

Another consideration is insurance coverage. Activities permitted as hobbies may not be allowed as businesses at home by your insurance carrier. If your product or service falls into this category, it may void your homeowner's insurance. Check with your agent. He'll be able to tell you.

If your current insurance company won't cover your business activity at home, check around. Other companies might, and with little or no increase in your premiums. Insurance is discussed much more completely in Chapter 15.

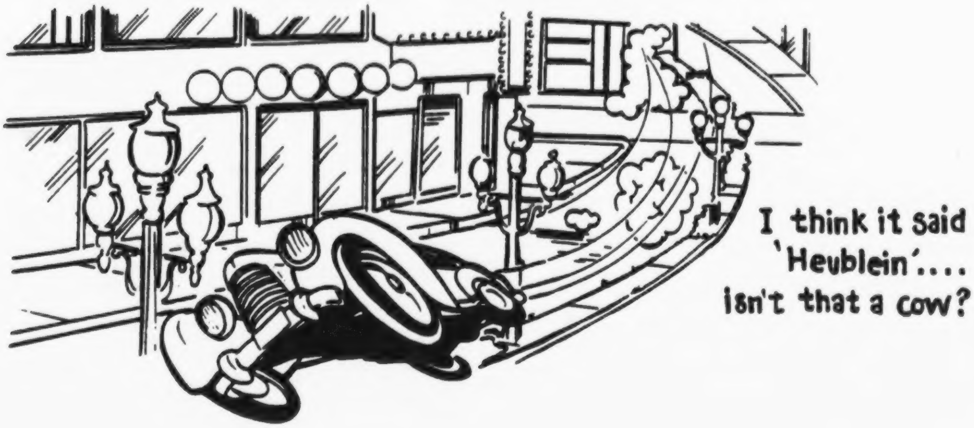
A home office, then, will depend on -

- Type of business
- Space available
- Costs
- Codes
- Personal Adaptability

Retail Signs

Your sign is the most important piece of advertising you'll do. It will be there, in place for a long time, and people besides your customers will get to know who you are and what you do.

If you have your own building, space, codes and costs are your only limitations; and visibility and recognition will be your main objectives.


I think it said
'Heublein'....
isn't that a cow?

Look around to see what your competition and other merchants have done. Talk to some graphic artists for ideas. Perhaps one of your vendors will supply a free sign if you advertise his product. If you haven't already developed a logo, now is the time, so you can display it on your sign. Will your sign be lighted to indicate you're open? Will your name fit? You might join with other merchants in a pylon sign - a tall stand-alone sign in the parking area or driveway with several business names on it.

Signs can be fun. If your business is stripping furniture, your sign could say "STRIPPER," which will certainly attract attention. Get some people together and be creative. You may even decide to change your business name when you realize how visible and attractive your business will be.

Office Signs

If you're renting an office in an existing building, your landlord will provide the signs, and yours will be in keeping with the building design. Signs will generally be limited to the building entrance and the door of your office, unless the location of your office requires directions. Anything else should be negotiated as part of your lease. Within your leased area, you can be creative with your own signs and graphics. And, not incidentally, what are you planning to put on your walls?

DECOR

Home Office

Your residence may be attractively decorated to reflect your personal tastes. Your home office should reflect your business if customers or clients are going to visit. Keep the decor consistent with your purpose and your clientele. Be open about your work, unless confidentiality is required. Display your tools and finished products. You're proud of them, and customers will enjoy seeing how you work.

If your service requires a waiting room, provide comfortable seating, lighting, some plants and pictures. Keep the basic colors muted, and use bright colors in accents and pictures. Include certificates and awards. People read these things while they're waiting. If you prefer that people don't smoke, use a small table sign (no wall signs here please). If you don't care, provide ash trays. If you will have a full- or part-time employee, their needs must be considered, and you may have to add a bathroom. As these considerations start to grow, go back to the beginning, and ask yourself if you really want to work out of your home. You could be ready for an off-site location before you start.

Office Building

Assuming the building design and landscaping are already in place, your concerns will be only your internal office space. Be sure to find out what the landlord will do for you when you negotiate the lease. Will he move walls and outlets? Provide carpeting and drapes? Will he raise or lower ceilings? What about a skylight? Ask for everything. If the landlord is stuck with a lot of empty space, you may get everything you want!

Note: There is also a new concept in office design that may answer not only your decor questions, but also provide you with many of the services and equipment that have been discussed above. Leasing your own space, but using central facilities and services, is an excellent way to start a small office. Tenants pay a proportionate share for a receptionist but only actual costs for secretarial or other services used. There are also business and technology centers growing throughout the country with access to teletype, facsimile machines, audio-visual equipment, graphic design, printing, and other services. Again, you pay for only what you use; but check the costs for these services. You may be better off with an outside vendor.

Whatever choice you have made, decor starts when a client enters your office, and first impressions count heavily. A little extra money spent here will set the whole tone of your business. A bare-bones, steel furniture, bright lighting effect for a technical office can be just as striking as warm carpeting and upholstered furniture are for a consultant's office. Keep it appropriate; keep it consistent; and keep it CLEAN.

Clutter on your desk is all right, but if your whole office is cluttered, it means you don't have enough file cabinets or storage space. This chapter is about getting organized, so stay organized. It's easier to monitor and looks better to your customers. All the interior decorators in the world can't cover up bad housekeeping with expensive furniture and art.

Office design magazines will give you good ideas on what direction to go. Call the Home Economics Department at your local college. They may have a student who would like to take this on as a class project - free. Visit the tenants around you to see what they've done. Go to some furniture showrooms and check for used furniture. Don't skimp on lighting and lamps; you want to create a cheerful, attractive atmosphere.

Again, hang your certification and awards. Use live green plants, but sparingly. Depending on space limitations, invest in a small tree and, perhaps, one or two table plants. The effect will be lively but will not distract from your business.

Customers Can Be Your Best Decoration

Lure them in with an attractive, well-planned store that looks like what you're selling. Decor for a retail operation is ATMOSPHERE.

Unless you're already a planner or designer, don't tackle this yourself. It's complicated and can be expensive. Professional help can mean the difference between success and failure. While an experienced store planner may do this for you quickly, try your local vo-tech or art and design school to see if they would assign your project to a senior student. Fixtures and equipment vendors may also help you with layout. The point is - you can't decorate until the basics are complete.

> Murphy's Law II: You can't do anything until you've done something else first.

You want to attract, lead, hold and sell. Will you have window displays? What size? What width and directions should aisles be? You need to specify wiring for spotlights, figure out proportionate wall shelving and determine the size and location of display fixtures. You need to find appropriate doors - entrance, lavatories, stockrooms, exits. Keep security in mind. Will floors be finished or carpeted? What about maintenance? A food service operation requires even more special planning, so don't try to do it yourself. Save your input for color choices and signs.

220

You have studied a little about external signs. In a retail operation, internal signs also need to be thought out very carefully. In general, they should be of a consistent color and style. Use color breaks for merchandising appeal. You'll need some informational signs such as "Restroom," "Hours of Operation," "Exit," "Cashier," etc. And you'll also have to have product identification and pricing signs. Avoid sign clutter by providing pamphlets containing usage details. Table-top signs with two or three lines of suggested uses are fine, but keep them simple.

Change your merchandise signs at least once a month. Regular customers want to see something new. This is an inexpensive and easy way to change your decor frequently with color, splash and excitement. You want your customers to think it's fun to be in your store - not that it's just another errand. If your basic planning and decorating is well done, minor changes in the "decor" will continually offer an up-beat, stimulating place to shop.

HANDLING CASH

Handling cash can be as simple as using a cash box and an adding machine, or as sophisticated as using the latest state-of-the-art terminals. Whatever your decision has been regarding cash registers, security and records are the two most important things to plan for. No matter how you balance your cash at the end of the day, it must balance and be entered in your daily records.

A register will help with this balancing and provide you with total receipts, minus refunds. Depending on the volume of business, you may want to take a sub-total during the day and remove the cash to a safe. Deposits can be made once or twice a week, but a good rule to follow is never have more than $500 on the premises. Check your insurance for this. Start your business day with $50 - $100 in bills and change and adjust this as your sales develop a pattern.

It is recommended that two people be in the cash area at the same time, one wrapping and the other checking out, unless business is slow. Not only does this speed up service but it also provides security. (Your insurance may require that employees be bonded.) Either you or your assistant should be responsible for the cash once it is removed from the drawer and until it is deposited in the bank. Choose a bank close to your business and keep a separate account there for this purpose.

Speaking of cash, a good standing rule to have in force states:

NO EMPLOYEE IS TO MAKE CHANGE FOR HIMSELF!

This rule should include yourself, to set an example for employees. What this rule means is: If your employee wants to change his own $5.00 bill, he should ask you or another employee to make the change. By doing this you accomplish two things:

First, you are protecting your employee from suspicion of going into the cash drawer.

Second, you remove the burden of responsibility from the employee.

Your accounting system is the subject of another chapter, but this is where it begins - with the first sale. Record your cash daily, and your deposits as you make them. Keep week-to-date, month-to-date and year-to-date sub-totals. You, your accountant, and the IRS will want to review these records periodically; and cash is the item they'll want to look at most closely.

LICENSES AND PERMITS

Start with the smallest unit of government, the municipal clerk of court, then proceed to county and state levels to determine your licensing and permit needs. Each government office will lead you to the next to establish your zoning requirements. Following are some examples of permits and licenses your business may require.

- o Business License
- o Construction Permit
- o Occupancy Permit
- o Fire Inspection Certificate
- o Health Department License or Certificate
- o Food and Beverage License
- o Motor Vehicle License (Trucking? Delivery?)
- o OSHA Inspection Certificate

Other licenses and permits are for single-purpose operations - dog grooming, for example - and these should be checked through a government agency or your lawyer.

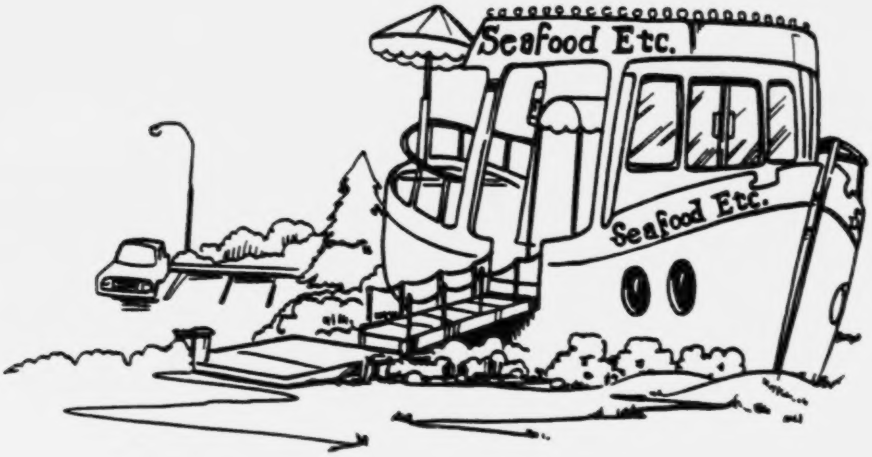
Most licenses require payments of fees and are issued annually upon application. You may be able to use one form - a "Master Application" - which will save you paperwork. It remains your responsibility to know what licenses are required for your business and, in most cases, to post them.

You will also need to get a tax identification number from the IRS. Call them and request an application.

Check with your attorney regarding patent or copyright requirements.

PARKING AND LANDSCAPING

City offices or Traffic and Public Safety Departments will give you guidelines for parking requirements. If there are parking requirements, they are generally based on a given number of spaces per square foot of business. Restrictions for on-street parking are already designated by signs, so, other than customer access, this is not your problem. However, there may be special parking requirements such as delivery or handicapped parking zones within your private parking area. Reserved parking spaces should be negotiated with the landlord, as well as responsibility for "striping" the parking spaces.


Seafood Etc.
Seafood Etc.

The parking area and the exterior of your building should be landscaped - which can also be negotiated. Perhaps you will need only evergreens by the entrance, but if you're starting with bare ground and a driveway, call your local college agricultural or extension service for help. They can offer you design and planting suggestions before you contract with a nursery or professional service to do the work. You might also consider a landscaping contest for the publicity value. Fence and conceal your trash area with trees and or plantings. Eyesores will draw complaints from other businesses and certainly will not attract customers.

REQUIREMENTS FOR THE HANDICAPPED

The larger the city, the more defined are these requirements. In addition to parking, you may need ramp access to your business. The city will provide curb ramps. The number of handicapped parking spaces required is in proportion to the number of square feet of your building. You may also be required to provide handicapped restroom facilities. Drinking fountains should be low - you won't need two different heights. Doors should open inward, and you will have to provide a separate door if you have a revolving door. Doors may be automatic or the overhead gate type which accommodates everybody. Regardless of what is required, thoughtfulness and courtesy towards all your customers adds to your good reputation.

HOURS OF OPERATION

Hours of operation will be determined by your customers' needs and shopping habits, lease requirements, and your health. You may want to establish a twelve-hour day, but this fast start could slow you down when you add paperwork, meetings and travel to your workload. For a retail business, a minimum of two employees should be planned for each twelve hours of business. In an office, employees will expect a standard 40-hour week, subject to overtime or exempt status. You can stay as long as you choose, and your customers will need to know 1) when your business is open and 2) when **you** are available.

Check your competition. Keep at least the same hours as they do, and if they're working shorter ones, you can extend yours. If you're located in a shopping center, the merchants' association generally sets the hours. (Membership in this group will give you other helpful information and cooperation.)

Above all, your customers will determine your hours of operation, since your purpose is to serve them. When do they shop? Do they have more free time on evenings and weekends? If you're in a service industry, will you call on them during evenings and weekends? Is yours an emergency service operation?

Answer these questions before you establish hours, and be flexible when appropriate.

Finally, you'll want to post your hours of operation prominently on your door or window, plus a small sign showing whom to contact, and telephone number, in case of emergency.

WHAT ABOUT THE KIDS?

Customers' small children are welcome; make other provisions for your own small children - even in a home office. (Close that door.)

Children love to go shopping or visit an office, but if you expect them, plan to offer items that will hold their attention. Small tables and chairs; a set-aside area with low displays (unbreakable); mock video game or terminal; offer small, packaged 'trail-mix' snacks, not candy. Find out what items your vendors have for give-aways. The average customer spends less than half an hour in a store, so unless you have longer business to conduct by appointment, small attention-keepers should suffice.

Common sense tells you to keep dangerous or breakable items out of reach. Try not to intimidate either the adults or children with many "Do Not Touch" signs.

You are hoping for well-trained parents. Well-trained children follow.

FILING TIPS

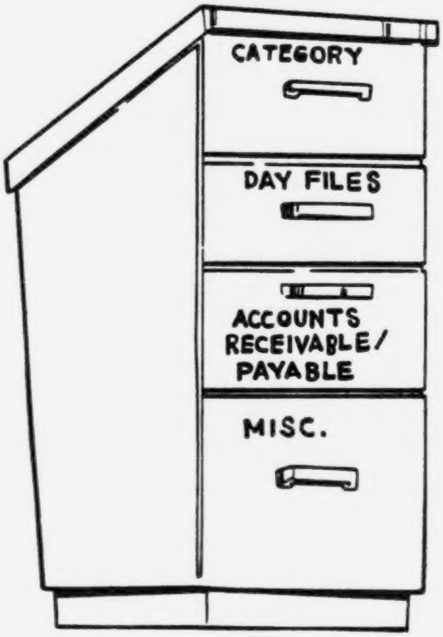
The general filing guidelines with which you started can still serve you well. There are five basic requirements to establishing a permanent system. Your system should be:

- o Simple to use
- o Easy to understand
- o Reliable and accurate
- o Consistent
- o Designed to provide information on a timely basis

After setting up your files by category, you can cross-reference them by keeping copies of correspondence and pertinent information in a "Day File." The day file should consist of twelve folders labeled by month, which will give you quick access to what you did in June '84, for example. A short notation on the item will direct you to more detailed information in your subject files. (SEE: Vendors - Signs.)

Accounts Payable and Accounts Receivable files should be set up. Separate accounts should be filed - first by date, then alphabetically. (ACCOUNTS PAYABLE: June Morgan, S.R.) Cross reference the invoice numbers to your ledger.

A four-drawer unit might give you:



Keep your customer lists in a 3"x5" card file. In addition to name, address, and phone number, note dates of contact. Code the cards "current and repeat," "prospects," "hold."

Keep a follow-up desk file. This is an 8-1/2"x11" accordion folder tabbed by date: "1" through "31." Items needing attention on the 14th of the month can be slipped into that slot. Check the folder daily and use it primarily for "must" items or you'll overload yourself with tasks.

A word about "in" and "out" baskets: Use them only for that purpose and try to dispose of paper as soon as possible. If you add a "hold" basket, it can become an entire new filing system. No action will have been taken and you will eventually have to buy another filing cabinet to store it. The Rule: Take action before you file.

Use a Rolodex (or similar) card file for phone numbers. You'll run out of space with a directory-type book.

Color code your files by using either colored folders or tabs.

Keep product information in 3-ring binders for easy update.

Some people are "keepers" and some toss last year's income tax return. Before you go to either of these extremes, you need only sort things into two groups: "Need to Know" and "Nice to Know." If you want to keep something and it's nice to know, go ahead. But plan for space.

SHIPPING & RECEIVING

Shipping

This can be as simple as delivering an item yourself. If you do, decide whether to add a delivery charge. Record this by date, name and address and itemize it on the customer's invoice.

You can use a local messenger service or UPS. These distributors will provide necesssary forms and will carry insurance. Local messengers are excellent for small shipments, and UPS will handle almost anything. Records provided by these services are time-saving for you, and mandatory when tracing lost shipments.

When shipping anything, check with the post office first when comparing rates and delivery times. For a small business, this may be the cheapest way to go, even though you won't have pick-up service.

Receiving

Never refuse a shipment. The delivery person is required to take the freight off the truck. If you need the shipment carried inside, ask for an inside delivery. The delivery person must inform you of a charge for this service at the time of your request. If no charge is mentioned, you won't be required to pay one.

Count the cartons and examine all packages for damage before signing for them. If there are damages, note them on the delivery receipt and contact the supplier for instructions on replacement. Expect cooperation. A good supplier wants to keep his customers.

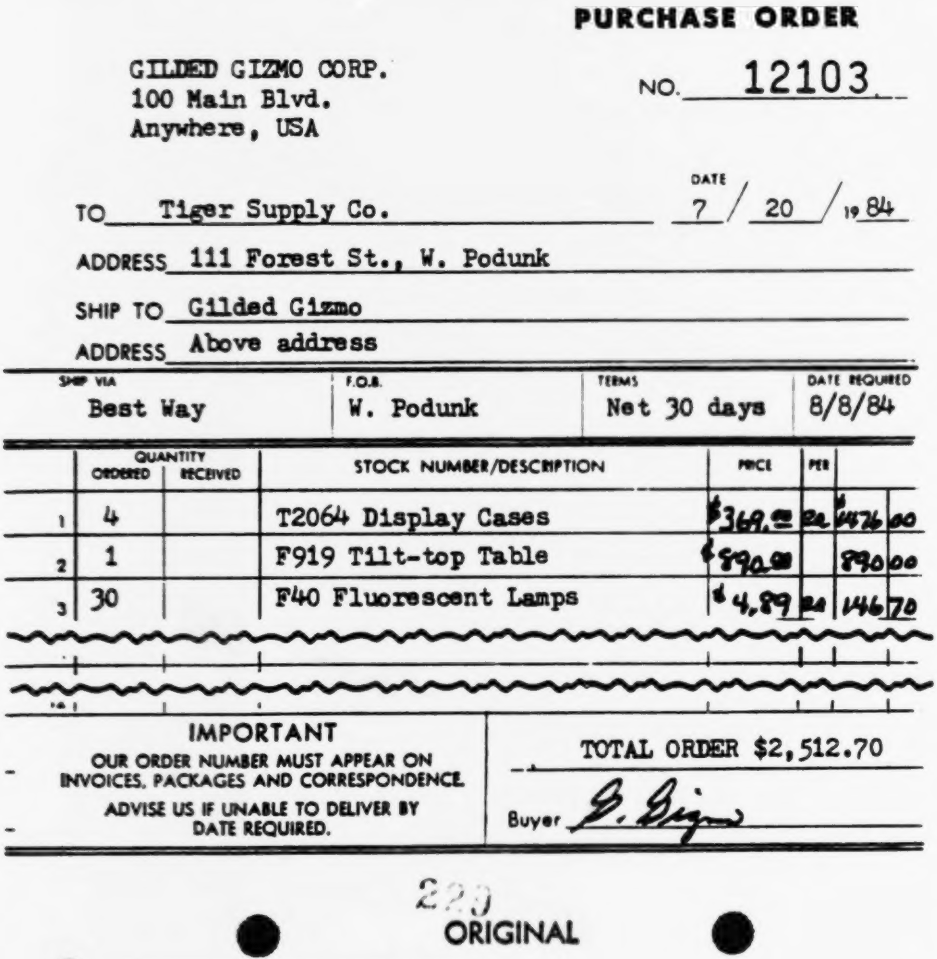
Organization is essential to an efficient receiving process. Determine ahead of time where you will store items and label the space. Shelve as you receive. Clear trash and empty boxes on a daily basis. Have you contracted for a trash removal service?

Do your paper work daily so you won't get behind. If you expect a large number of shipments in a short period of time, rotate employees for the receiving task, but keep a supervisor available.

The following are sample Purchase Order and Receiving forms used by a typical store. These are "stock" forms available in several sizes from office supply stores.

Materials ordered in our example were listed in a catalog. Note that stock numbers as well as descriptions were used in order to reduce the possibility of error. All other pertinent data was supplied as called for. Thus, Tiger Supply Co. would know exactly what, where, how and when to ship. Tiger also would know they have a choice of the "best way" to ship (common carrier, a parcel service, their own truck, etc.), and that Gilded Gizmo is willing to pay shipping charges, as indicated by "F.O.B. W. Podunk".

After receipt of this order, Mr. Gizmo uses the Receiving Record form to fill out the Quantity Received column, making sure it matches up with the Quantity Ordered.



PURCHASE ORDER

GILDED GIZMO CORP.
100 Main Blvd.
Anywhere, USA

NO. 12103

DATE 7 / 20 / 19 84

TO Tiger Supply Co.

ADDRESS 111 Forest St., W. Podunk

SHIP TO Gilded Gizmo

ADDRESS Above address

SHIP VIA	F.O.B.	TERMS	DATE REQUIRED
Best Way	W. Podunk	Net 30 days	8/8/84

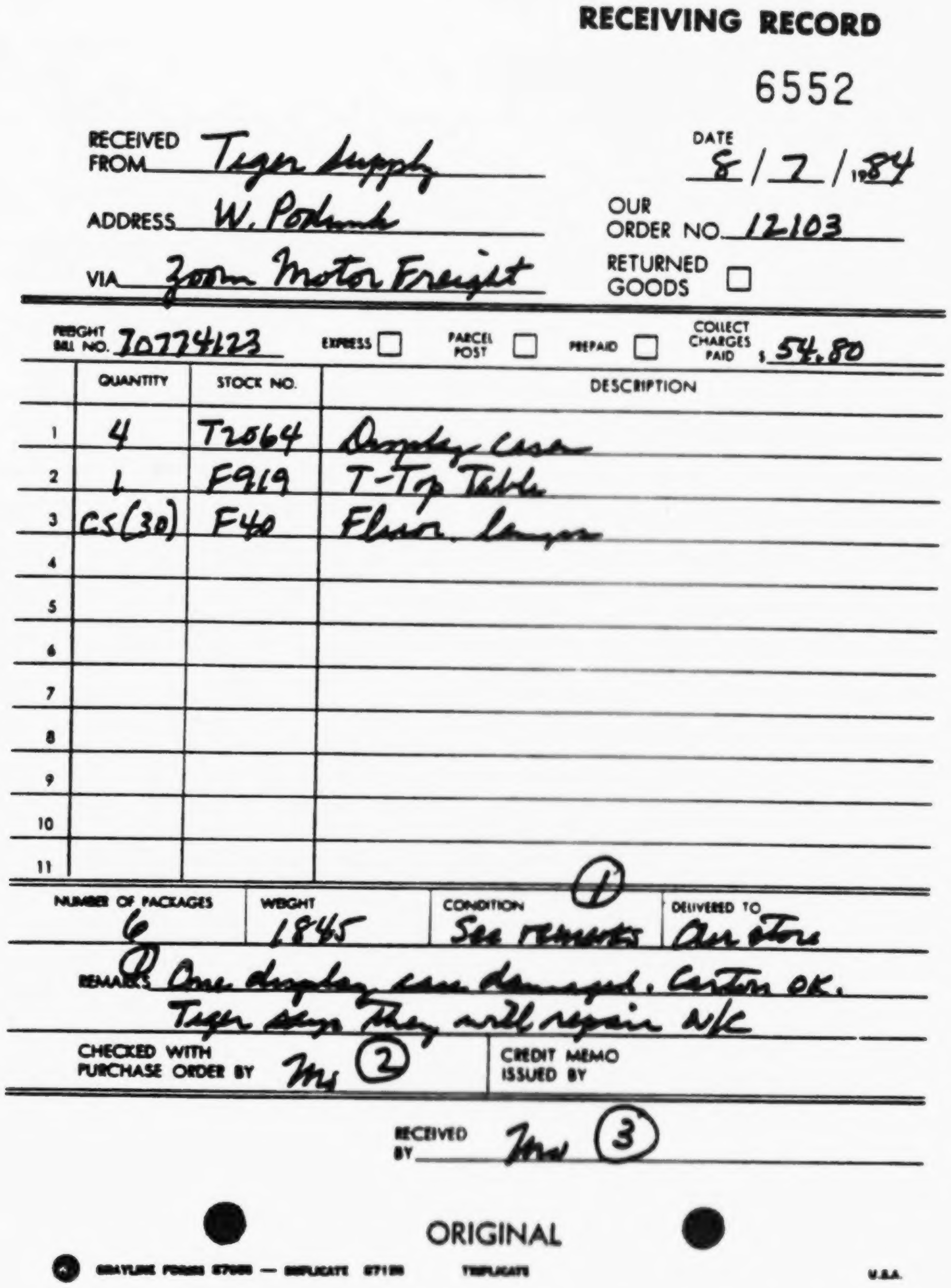
	QUANTITY ORDERED	QUANTITY RECEIVED	STOCK NUMBER/DESCRIPTION	PRICE	PER		
1	4		T2064 Display Cases	$369.00	ea	$1476	00
2	1		F919 Tilt-top Table	$890.00		890	00
3	30		F40 Fluorescent Lamps	$4.89	ea	146	70

IMPORTANT
OUR ORDER NUMBER MUST APPEAR ON INVOICES, PACKAGES AND CORRESPONDENCE.
ADVISE US IF UNABLE TO DELIVER BY DATE REQUIRED.

TOTAL ORDER $2,512.70

Buyer G. Gizmo

ORIGINAL



RECEIVING RECORD

6552

RECEIVED FROM Tiger Supply

DATE 8/7/1984

ADDRESS W. Podunk

OUR ORDER NO. 12103

VIA Zoom Motor Freight

RETURNED GOODS ☐

FREIGHT BILL NO. 70774123 EXPRESS ☐ PARCEL POST ☐ PREPAID ☐ COLLECT CHARGES PAID $ 54.80

	QUANTITY	STOCK NO.	DESCRIPTION
1	4	T2064	Display case
2	1	F919	T-Top Table
3	CS(30)	F40	Fluor. lamps
4			
5			
6			
7			
8			
9			
10			
11			

NUMBER OF PACKAGES	WEIGHT	CONDITION ①	DELIVERED TO
6	1845	See remarks	Our store

REMARKS ① One display case damaged. Carton OK. Tiger says they will repair N/C

CHECKED WITH PURCHASE ORDER BY Ms ②

CREDIT MEMO ISSUED BY

RECEIVED BY ③

ORIGINAL

U.S.A.

When the shipment arrives, in this case via Zoom Motor Freight, the person responsible for receiving must fill out this form. He counts and records each item as it is unloaded, making certain all goods are received in good condition. If not, he notes this, as in "1" above. He checks this document against the Purchase Order ("2"), then signs ("3").

ANTICIPATING PROBLEMS

Anticipate problems first with our insurance agent and your policies - working backward, determining what losses are not covered. This will give you a base for major losses, but the day-to-day problems in a business can become nagging if you haven't anticipated them.

Some Frequent Problems

- Under-staffing/absenteeism: Is temporary help available?
- Power outage: Back-up generator? Coleman lanterns? Candles? Safety drills? Fire extinguishers? Back-up service for cash sales?
- Customer's lost items: Is there a lost & found area? (Car keys, packages, wallets - even children?)
- Minor injuries: First aid kit available? Emergency phone numbers posted?

Some Occasional Problems

- Theft: Procedures established? Emergency phone numbers posted?
- Looting: Who will be on site? When? Access to lumber for boarding up? Contact for civil defense?
- Leaking ceiling: Covers for merchandise? Pails? Phone number to call for repair?
- Vehicle breakdown: Second vehicle available? Where?

Some Preventable Problems

- o We're out of stock: Check your inventory system.
- o Misprint in ad: Proofread your ad copy.
- o Defective merchandise: Accept customer returns; check on supplier's policy. Screen suppliers carefully.

Your experience in operations will add pages to these possibilities. .

ESTABLISHING PROCEDURES

Operating procedures should be written, maintained and updated in a three-ring binder. In some cases they need to be posted in an employee area. Posters such as Affirmative Action and Safety Rules are available from the federal and state governments.

For internal operations, draw up an organization chart showing lines of authority. This does not have to be an elaborate corporate-type chart, but should indicate:

OWNER/PRESIDENT

TREASURER	OPERATIONS MGR	SALES/COMM MGR
Bookkeeper	Asst Mgr	Sales Staff
Clerk	Assemblers/ Clerks	

Titles should then be defined by short job descriptions and a reporting chain. (Everybody reports to somebody - if it's just you, you report to the bank.) Periodic meetings should be held to review the efficiency and productivity of this chain. If sales are being held up in production, you have a base to assess responsibility.

Posting

Employee schedules should be posted weekly for a small operation. A blackboard and chalk are enough, and will be easy to change. A daily board for salespeople checking in and out is helpful.

Production schedules are good employee motivators and they track progress. For example:

PROJECT	START DATE	JOB TITLE	CURRENT STATUS	COMMENTS	DUE DATE	COSTS

An office supply catalog can suggest attractive boards for this (a good one costs about $400) but again, a blackboard can do the job. Remember to transfer this production schedule into permanent files when completed. It will give you a good time and experience record.

Business procedures change as a business grows. The important thing is to write them down, be consistent, and develop a pattern that shows **why** you did something when you did it; why you changed it; why you eliminated it.

Don't be discouraged with organizing. It's just a process that helps your business operate smoothly and frees your time for your customers. When you make that first $100 sale, you'll have a place to record it, a bank to put it in, and a customer file to note.

CONCLUSIONS

In this chapter you have learned:

1. A name for your business should be chosen carefully because it reflects an image you want to project to the public. It could be around for a long time. You now have the keys to what works best.

2. Buying office equipment is much like buying a new wardrobe when you're half-broke. You want to cover the essentials first, buying only a few necessary items, leasing the rest, until you know your growth rate and future potential.

3. A home office involves the whole family, and although there are tax breaks, you must also consider requirements for space, decor, equipment, zoning, insurability, licenses and permits.

4. You have an ever-growing list of options for communications equipment. Because the telephone could well be the heart of your business, you should plan now for your optimum needs, adding the services your growth demands at a later date.

5. To determine the signs you need, put yourself into the shoes of a customer, then ask what do I need to know - under any circumstance - to do business with this company? If you provide the information customers need, using simplicity and uniformity you'll do your business a favor.

6. The decor of your place of business should relate to your products, services and the type of clientele you appeal to. A few dollars invested wisely can make the right statement about you as a business person.

7. Handling money invites problems. Therefore, your procedures and equipment should be carefully planned for accuracy, honesty and control.

8. The first thing a prospective customer sees is the outside of your business location. You can plan now for parking facilities and landscaping that reflect the theme or image of your business, as well as your consideration for people.

9. When establishing operating hours, you need to be competitive and practical. Then make sure your customers know when they will be able to do business with you.

10. Good organization calls for systematic filing. You avoid future chaos by setting up a system prior to opening your doors to the public.

11. All procedures - the activities and responsibilities of each person in conducting business - should be pre-planned, written and posted.

CHAPTER 8

Spread the word through advertising

Not an expense...an investment

What is it that makes your store a busy, happy, thriving place? Why do people come to you instead of your competitor? How does a business person get that unmistakable feeling of success?

Sales--and lots of them--make for success. And ADVERTISING MAKES THE SALES HAPPEN. Advertising is often as important to a small business as location, start-up capital and management. Without advertising, you could not tell prospective customers about your products or services--and you cannot sell to people who don't know about you. You may call advertising "clutter" during your favorite TV program or "tacky" at its worst, but promotion is critical to keep your personal wheels of commerce turning.

With enough time and money, you are going to be able to experiment and find successful ads for your business. But a good ad, even a great ad, is not enough to make your advertising budget really effective. To do the most good, your advertising should be organized into a complete promotion program.

An advertising program needs to be supported by your window display, point-of-purchase displays, wall banners, outside signs, product literature, demonstrations, training for your sales people, and other activities that will sell your prospective customers.

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This chapter will give you the basic information you need to construct an advertising and promotion program that will make the most of your budget. While it would be impossible to recommend precise ad copy or specific media buys, you will be able to learn here the general principles of effective advertising so you can begin on the right foot. You will learn how to set an advertising budget; why an ad works; how to write and test an ad; how to produce an ad; and when to buy which types of media.

To a small businessperson, advertising and promotion are critically important and constantly confounding. We MUST have it, or we'll be left behind by the competition and forgotten by our customers. Yet, we are the least prepared to pay for it. And, since we don't have monster-sized budgets, we can't afford the high priced advertising professionals we need to help us.

Therefore, we usually end up writing our own ads and experimenting with our precious cash. You will NEVER have more opportunities to waste your money. Advertising has to pay for itself by generating higher sales immediately. Our budgets are never large enough to risk on an ad or promotion just because it "sounds" like a good idea.

That is what this chapter is all about: how to do your own advertising and promotion the smart way with a minimum of experimentation and waste. We have to be practical, right? Well, this chapter will help you get your advertising program organized correctly so it accomplishes its purpose, making more sales for you!

In this chapter you will learn:

1. What advertising is.
2. How to plan an advertising budget.
3. How to develop a media plan.
4. How to develop a media schedule.
5. How to create your own advertising.
6. How to measure results.
7. How to work with an advertising agency.
8. What in-store advertising devices to consider.

WHAT IS ADVERTISING?

Advertising is any communication of a sales message. Advertising messages are usually non-personal; they say, "Hey, pay attention to me!" to everyone at once. These messages can be delivered via a wide range of media, including radio, newspaper, signs, calendars and direct mail. Advertising can promote ideas, goods or services. Advertising messages are distinguishable from other types of communication and public relations messages because they attempt to PERSUADE from a distinct point of view (This product is better than that one) and they are PAID FOR by an identified sponsor.

Advertising is one-way communication sent by the seller to a group of prospective buyers. There's a lot of competition for the attention of prospective buyers, and only the best advertising will succeed in getting a message through. The "best" advertising works because it attracts favorable attention to a product or service and is remembered by those who see it: it is either especially clever, offers an outstanding value, or is otherwise memorable to the prospective buyers. If your advertising gets the public to remember you and REACT by purchasing from you, you've succeeded. Advertising strives to make a top-of-mind impression on the viewer or listener.

> "Advertising is the art of convincing people
> that debt is better than frustration."
>
> **- Robert Orben**
> **American Legion Magazine**

Advertising can do a lot, but it can't do everything. It can't make a better business person out of you; it can't get you organized; and it can't raise money miraculously over the weekend. It CAN:

1. Promote products and organizations
2. Stimulate demand
3. Offset competitors' advertising
4. Make salespeople more effective
5. Increase the uses of a product
6. Remind and reinforce customers
7. Reduce sales fluctuations
8. Promote goodwill

FIRST, YOU NEED A SENSIBLE BUDGET

When starting up a new business, or, if you have recently taken over an existing business, throw out any standard guidelines for setting your advertising budget. Remember, when you start a new business, your customers and potential customers MUST BE TOLD ABOUT IT.

They are accustomed to going elsewhere. Most likely, your new business will have absolutely no name recognition with them. They probably know little or nothing about the goods and services you offer.

Thus, when starting a new business, it may be necessary to spend a good deal more money in promotion than will be necessary later.

Many new businesses make it a point to open with big advertising splashes or campaigns. They want (and need) instant name recognition. How much to spend for advertising in this case depends upon you, your business and your spending capability.

BEFORE you put your creative energies to work, put your pen to paper and calculate an advertising budget for yourself. This figure can be either a percentage of sales, a per-unit amount based on sales or a specific amount for a particular promotion.

It is important to spend the right amount for advertising: too much is an extravagance, and too little is dangerous. You must be strict with your budget and tie the costs to results. To do this, you will need to track your advertising's effectiveness. But first, let's decide how much to spend.

As a Percentage of Sales

One way is to calculate advertising expenditures as a percentage of sales, based on industry averages. Advertising is a predictable business expense like rent or labor costs, and can be related to the amount of goods sold. Each industry has established a percentage figure or ratio of advertising to sales. Dun and Bradstreet, Standard & Poor's and Robert Morris Associates are financial organizations that publish guidelines for major industries. Most public libraries have one or more of these service's publications. And with a little bit of time, you can get a good sense of what successful businesses, approximately your size, spend on advertising.

You must decide which sales figures to use: past sales, estimated future sales, or a combination of the two. In using past sales, you can use one year or an average of two or more years. Remember to adapt your strategy to changes in economic conditions. For example, you may want to spend more than the average to get a lead on the competition. Or, if your sales are much higher than expected, you may be able to spend less and divert some of that money elsewhere in a given year.

In most cases, the advertising budget will range from 1 to 7 percent of gross sales, depending upon the type of business and, of course, your competition. The average for retailers is about 3 percent.

By now, you should have a pretty good idea of what your monthly sales should be; you may want to refer back to your projections and forecasts in earlier chapters. Multiply this figure by the guideline percentage for your industry, and divide the result by 12. Now you have a pretty good idea of what you have to spend--or should be spending--per month for advertising. Of course, you'll have to allow for seasonal fluctuations and special promotions. This should give you at least a sense of scale.

As a Unit of Sales

Another way to calculate your advertising budget is by unit of sales. Using this method, you decide how many units of merchandise you need to sell and then multiply this figure times what it costs to sell one of them. After some experience, you will be able to judge this amount quite accurately. For instance, if you want to sell 100 bicycles and it costs $10 in advertising to sell each one, you need to purchase $1,000 worth of advertising. This method is useful if the number of products you sell is determined by outside factors, such as an import quota or the weather. It is less useful for a merchant who has a wide product line; or small ticket items.

Mike's Bikes
MIKE's BIKES
RICK
MOTC
EXPR

"That's 400 new bikes I've counted! Mike must be running a full-page ad!!

Objective and Task

Then there is the "objective and task method". It relates specific sales objectives of one or more special promotions to the advertising budget needed to accomplish them. According to this method you would determine how many units of a certain product you want to sell. Then you would allocate the amount of advertising budget necessary to achieve that goal. "Objective and task" is a difficult method to use at first because making these estimates requires you to predict the most effective advertising methods to achieve particular aims. It is common to have the first estimate too high and later to have it pared down.

Breakdown and Allocation

Once you have decided how much money to spend, you need to divide the expenditures within your organization over the calendar year, by media type or by geographic sales area. You can divide your advertising budget by departments in your organization or by major product lines. For example, if one department in your organization gets 15% of your sales, you would allocate 15% of your advertising budget to it. If you want to promote a certain product line, you would allocate more than its proportional share of revenues to it.

The calendar method of breaking down sales gives you more control over your advertising dollar. You can also use a percentage of sales method to allocate advertising costs over a given calendar period. For example, if you are in the lawn and garden business and 30% of your sales occur in May and June, then you would allocate 30% of your advertising budget to these months.

You can also break your advertising budget down by type of media. Media is defined as the advertising vehicle that carries advertising, such as newspapers, TV, radio, fliers, billboards, etc. With this method, you allocate your budget on the basis of how much of each type of media you want to use. For example, you may find that your money is spent more effectively in newspapers, direct mail and radio, and that you should skip TV. This is one of the best ways to set an ad budget.

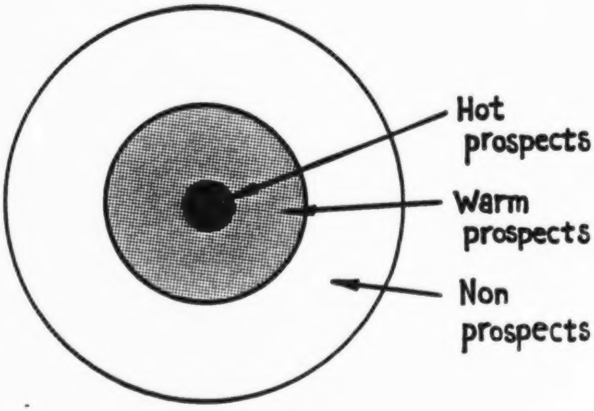
Before we go further, a word to the wise: it is usually more expensive to develop new customer areas than to maintain established ones. Be realistic in your estimates; if you are opening new territory, it will be expensive. Also, keep your budget flexible. Have a contingency fund ready to respond to the needs of new products, a new competitor, or other unforeseen circumstances. Don't just read your own ads, but keep an eye on your competition's activities. Don't copy them, but be prepared to respond if necessary.

Okay, so you have a "rough" advertising budget. Whether it's as much as you want to spend or more than you think you need, you're going to have to start making some decisions about your media plan.

There are five basic steps in planning an advertising budget and media plan. These five steps are:

1. **Decide what you want to sell.** This will be the core of your sales message, so think carefully. Do you want to get your customers excited about a new product line? A special price? Your new location or grand opening? If you just want to sell your image make sure you know what kind of image you want them to remember you for: Classy and well-priced? Lots of one-of-a-kind stuff? Special service? Weekly specials? Once you have all these answers fixed in your mind, you can set out to establish your position in the market.

2. **Determine the target audience for your sales message.** Naturally, this should be the group of people who are your best prospects. What do you know about them? How would you describe them?



3. **Determine why this group buys what you sell.** More to the point, why should they buy from you instead of your competitors? On Madison Avenue they call this your Unique Selling Proposition. And that's what your advertising should emphasize.

4. Now you have just about written the essence of your sales message. You still don't know the best way to deliver this message, but you're close. Your next step is to **select the best communication media to use to reach your target audience** with your sales message. In other words, how do your prospects usually get their information?

   Consider the major advertising options available in your market (listed in the next section). Which media appear to offer the audience, the costs, the format and advantages that best fit your needs?

   To make your selection process easaier, rank your advertising options from best to worst. Because you know that different customers respond to different types of media, you naturally want to cover your options as best you can afford. You are now developing your "media mix," which is simply a fancy way of saying you are not putting all of your advertising eggs into one basket.

5. Finally, **complete your media plan.** Using the list you prepared in Step 5, you need to assign some dollar amounts to these media. Using your best "educated guess" of where your advertising will work best, write a percentage of your budget that you would like to see go to each media next to each item you listed above.

   Multiply your monthly advertising budget (or yearly, if that works better for you) by these percentages, and write the numbers down. For example, if you wanted 40% of your budget to go to advertising in your local community newspaper, and your monthly ad budget was $1,000, you know you should plan to spend about $400 per month with your local newspaper representative ($1,000 x .40 = $400).

   We have defined Advertising Media as the vehicles or places where advertising appears. When you determine where to place your advertising, you develop a media plan.

   For most small businesses, the best media buys are usually the local newspaper, direct mail and circulars or flyers.

243

ADVANTAGES AND DISADVANTAGES OF MAJOR ADVERTISING MEDIA

Following is a list of major media with an appraisal of the advantages and disadvantages of each.

Newspaper

Advantages: High readership within geographic area; easy to reach metropolitan markets; frequent publication; short lead time; favorable for cooperative advertising; assistance available for copy and layout; volume and frequency discounts.

Disadvantages: Non-selective distribution within market; short life and brief exposure for any one ad; limited reproduction capability (poor quality of printing compared to magazines).

Magazine

Advantages: High degree of selectivity; long life; good to excellent reproduction quality; volume and frequency discounts; fairly thorough readership.

Disadvantages: Relatively high cost (which could be offset by results); long lead time.

Radio

Advantages: Good selectivity of audience through choice of station; can reach large audiences; flexible timing; short lead time; quick changes possible.

Disadvantages: Limited to audio; short life of message; subject to distractions while listening.

Television

Advantages: Very large audience possible; low cost per exposure; best communication impact via sight and sound; good selectivity of audience; high prestige.

Disadvantages: Highest production costs and high dollar costs for time; limited prime time available; short life of message; audience size not assured.

Direct Mail

Advantages: Highly selective as to type (letters, catalogs, price lists, brochures, circulars, newsletters, postcards, coupons, samplers, etc.); highest selectivity of audience; complete flexibility of timing; personal; stimulates action; hidden from competition; easy to measure.

Disadvantages: High cost of distribution; often discarded as "junk mail."

Outdoor

Advantages: Can be low cost; geographic selectivity; permits easy repetition; message "works" 24 hours a day.

Disadvantages: Brief exposure to public; message must be very short; no selectivity of income level, age, education or other demographics other than geographic; considered by many to be a traffic hazard.

YOUR MEDIA SCHEDULE

At this point you have completed your first media plan. You know **where** your advertising dollars will be spent, but you still haven't planned **when**.

Before you begin this process, think about any factor that could affect the timing of your program.

Is yours a seasonal business? It's better to advertise most heavily prior to the season.

Is there heavy competition? It's better to use larger ads less frequently to command attention.

Are you trying to reach a narrow segment of the market? It's better to use small ads or direct mail as consistently as your budget allows.

Will certain days of the week or the month be your best days? If so, advertise just prior to those days.

You get the picture. Think through every step by putting yourself into the shoes of your potential customer. Then put your advertising emphasis where it has the greatest **potential** for sales.

As you work out your media schedule, keep in mind the value of **frequency**. Your objective is to hammer your message into the minds of your potential customers. You want them to recall your message and be motivated to buy from you at the critical moment. To accomplish this, frequency is vital. But, of course, your budget has limitations. Therefore, you must plan for frequency within key time periods.

MEDIA SCHEDULE

Media	Jan	Feb	Mar	Apr	May	Jun	JuL	Aug	Sep	Oct	Nov	Dec
Metro News			6"	6"	10"	10"			6"	6"	20"	20"
Neighbor News			¼ pg	¼pg	¼pg						¼pg	¼pg
Radio WXYZ 24 x 30 sec.				✓	✓	✓					✓	✓
Direct Mail												
· Opening			✓									
· Spring Sale				✓								
· Fall Sale									✓			
· Christmas											✓	✓
Gizmo Gazette				10"	10"					10"	10"	
Results												
Costs												

To develop your schedule, use a pencil (with a large eraser) and list your selected media in a column on the left side of a piece of paper. Across the top, list the months starting with your start-up month. Then rule in the horizontal and vertical lines until you have a complete grid.

To fill out the grid accurately, you need to know the costs of the various sizes of ads or radio/TV time you plan to buy. You can get these rates by contacting the various media directly (ask them to send you a rate card) through the Standard Rates and Data Directory available at most advertising agencies, or by sitting through a lot of presentations by the media sales representatives.

In dealing with media representatives, remember they all have an axe to grind. They all represent the "best medium." And they are all armed with facts and figures that could very well pull you in a dozen different directions at once. But hold on. Listen to them, and you'll learn a lot. Ask questions designed to help you make wise decisions. Befriend them because of the influence they have with their publishers. There's no way they can all be "the best" for you. That's YOUR decision.

As you develop your tentative plan for each month, keep checking the total cost for that month to see if it ties in with your media plan projections. Double check your timing. Check against any special promotions you may have planned. Check against possible conflicts such as major sporting events in your city or on TV. Make certain the publications you have selected actually publish during the months you selected. (Some publish bi-monthly, some skip January or August, some publish weekly, etc.).

When your grid is completely filled out (and if your paper is still in one piece after all those erasures), you're ready to note the deadlines--or closing dates--for each medium. You get this information at the same time you get the rates. It's required, of course, that your advertisement is in the hands of the publication by their closing date.

Unless you have a memory better than an elephant's, we strongly advise you to keep your media schedule visible, and refer to it often so you won't miss those deadlines. You'll probably want to change it quarterly, too, because you'll want to add or subtract according to the results you measure; or, you may want to take advantage of a "special" advertising offer.

CREATING YOUR OWN ADVERTISING

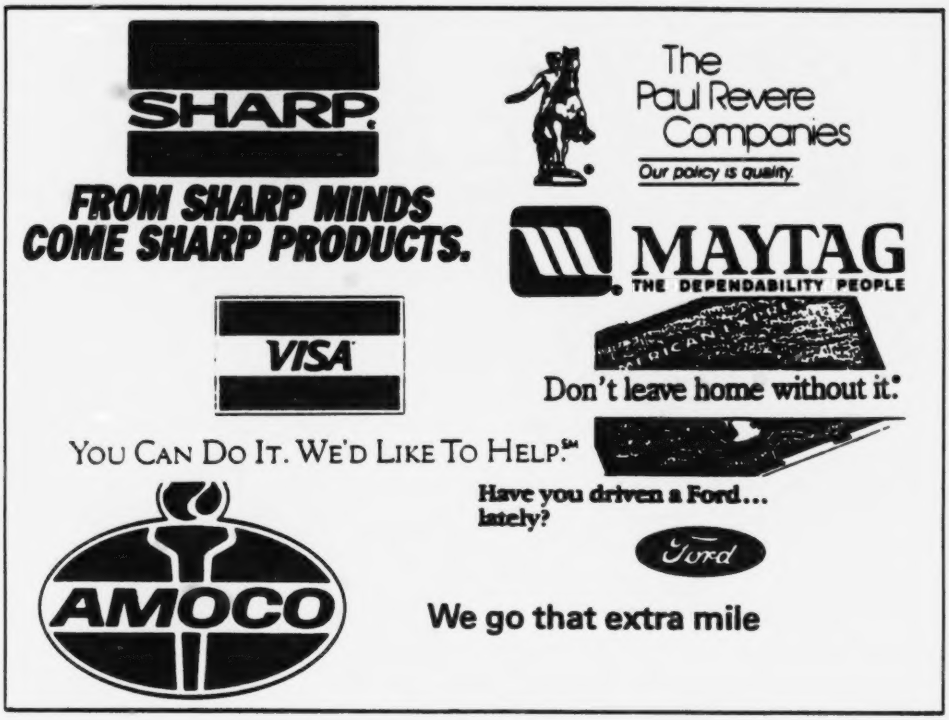
You now should have a clear direction, a rough media plan and all the help you think you need. What do you do next?

Your Identity

First, have you chosen a name for your business? The right name can go a long way toward establishing an image and producing sales. Your company name identifies you and the kind of product or service you offer. It gives a personality to your business. It even determines where your listing will be in the yellow pages. (See Chapters 6 and 7 for data on name selection.)

Second, have you considered a logo (short for "logotype") and/or a slogan? A logo is simply a design that helps identify your business. Properly designed, it can convey an instant impression of your company. Or it can strongly reinforce your company name or your slogan. When used frequently in advertising, it will implant a subconscious attitude in the consumer's mind.

You can also develop a slogan to communicate your company's products or services in a memorable way.


SHARP
FROM SHARP MINDS COME SHARP PRODUCTS.
The Paul Revere Companies
Our policy is quality.
MAYTAG
THE DEPENDABILITY PEOPLE
VISA
Don't leave home without it.
YOU CAN DO IT. WE'D LIKE TO HELP.℠
Have you driven a Ford... lately?
Ford
AMOCO
We go that extra mile

You've seen logos and slogans by the thousands, including the ones shown here. But if you study them, you will better understand the psychology behind them.

Before you actually begin creating your first ad, there are several planning processes to think through, as follows:

1. **The concept.** You should develop a concept that fits your plan. In the advertising business, the concept is

king. A great concept will make up for a skinny budget and modest execution. A poor concept cannot be saved, regardless of the money you spend.

What makes a concept "work?" A concept is a theme that communicates what you want to say about your product or service. The best concepts use copy and visuals that relate to customer needs and benefits.

Think about your most important selling points and how you can draw attention to them. Whatever it is--your super low price, a product benefit, a special brand you sell, a gala grand opening, a new location that is more convenient--make it the centerpiece of your ad and build your concept around it.

Other concept, or theme, ideas:

. A special sale tied in with a holiday
. Anniversary sale
. Manufacturer's closeout
. Inventory adjustment
. Clearance
. End of season
. Pre-season

2. **Think through the production process carefully.** Don't rush, particularly on the first few ads you do. Make sure what you have in mind is possible--and remember that your advertising budget is better spent on media than on production. Dancing girls in Hawaii might be a lot of fun to put in a commercial, but who wants to pay for it? And bicycles don't fly unless you have lots of cash for special effects.

A story may be helpful here: A very savvy businessman was convinced he was paying more than he had to for his magazine ads. Being the kind of guy he was, he was determined to teach himself enough about the advertising production process to keep himself out of trouble. He did it in a very efficient way by imagining the ad he wanted to do, and then walking it through the entire production process. He got bids at every step of the way. He talked to every vendor he could, and picked their brains for the best way to do things. By the time he was ready to put his next ad together, he knew what needed to be done, how much it would cost, who could do it cheaper and how long it should take. By doing this "dry run" first, he had some flexibility to get the job done the way he wanted it.

249

3. **Allow enough time for creativity.** Creativity is that spark of clear understanding behind a concept that makes people sit up and say, "Hey, look at that!" It doesn't just happen. Allow enough time for both you and your vendors to come up with fresh thoughts and new approaches.

4. **Practice, Practice, Practice.** The flash of inspiration that sells a million widgets overnight is real. It does happen. But you have to get yourself ready to make that kind of step by continually improving your ad-building skills. Be critical of your ads. Avoid the ruts. Don't believe the people who say everything you do is "great stuff."

   Remember to keep it simple and uniform. Set up your advertising style, and if it works, stick with it. This means, pick illustrations that are similar in character (helps create and reinforce your image), stick with the same typeface for print ads or the same format for audio (radio) or video (television) ads.

Once you have your theme in mind, you're ready to develop the components of your ad, which for a printed ad are: headline, copy (or text), illustration and signature. Let's discuss these separately.

Headline

This is the attention-getter (along with the illustration), and its role is to scream "THIS IS IMPORTANT...SO READ ON!" Here are some good ways to get attention:

1. Appeal specifically to the audience you're trying to reach.

2. Talk the prospect's language.

3. Get "news" into the headline.

A good headline should be brief, easy to understand, and powerful. It should convey a benefit, a promise, a surprise, or a very good reason to read more. The most powerful headline words are NEW and NOW:

A NEW WAY TO FIGHT BOREDOM. . .

NOW IN 24 FLAVORS. . .

Ideally, your headline should summarize the most unique feature or benefit of your product or service, and dangle that benefit like a carrot in front of the readers:

WE GUARANTEE IT: 4-HOUR DELIVERY

LOSE 30 POUNDS IN 30 DAYS

MAKE $200 PER DAY THE EASY WAY

You get the idea. Another important feature you may work into your headline is an URGENCY for the reader to act quickly:

THIS WEEK ONLY!

LAST THREE DAYS!

BEFORE YOU PLAN YOUR NEXT VACATION. . .

Another thing to remember is your reader's primary interests, such as their security, their pride, their comfort, their income, their need for a "better life". For example:

NEW HOME PROTECTION PLAN

A NEW WAY TO DEFEND YOURSELF

WE'LL SAVE YOU A BUNDLE. . .

NO MORE BACK PAIN

If you have any doubt about the importance of a headline in an ad, consider the classic case of Phoenix Mutual Life Insurance Company. They tested a split run to identical audiences, using an ad that pictured a husband and wife. The only difference between the two ads was the headline. Can you guess which headline produced the best results?

A. "What would become of your wife if something happened to you?"

B. "How to retire on a guaranteed income for life"

Ready for this? Ad B outpulled ad A by a margin of 19 to 1! The reason? It TELEGRAPHED THE MESSAGE. It got right to the heart of the reader, too. In brief, a little thought to dig out your real message goes a long way.

Copy

The wording of your ad is known as the "copy". There's no quick way you can become an overnight sensation as a copy writer. But you can learn some of the principles.

Good copy is simple, direct and easy to understand. Humor, cleverness for its own sake and other "cute" things don't belong in your advertising. Leave that for the guys with the multimillion dollar advertising budgets.

Your copy should follow the formula AIDCA:

Attention - Remember, you're competing with hundreds of other advertisers for the attention of the reader. Your copy should follow the same rationale as the headline. Make it sing.

Interest - Your copy should explain the benefits and features of your product or service in such a way that the reader feels involved. That means, make every word count. The reader should never say "so what?" after reading your ad.

Description - Your particular product or service is, most likely, foreign to your prospective customers or your new business is unfamiliar to them. Therefore, a thorough description is necessary to eliminate any confusion from their minds. The better your choice of words, the better your customers will understand and respond.

Conviction - If your copy does its job, your readers will arrive at the conclusion that they would be better off responding positively to your ad. (Buy now, or soon.) Without this positive reaction, your ad would miss its mark.

Action - Action is the natural outgrowth of conviction. Your copy should urge action through words like TODAY, NOW, BEFORE IT'S TOO LATE, WITHOUT DELAY, RUSH THIS COUPON TO US, etc. Build a fire under them.

Other copy pointers: Keep your sentences short (they don't have to be complete sentences). Repeat key ideas. Use plenty of adjectives. Use the active sense ("This product will help you." NOT "You will be helped by..."). Use warm, personal, sometimes even folksy language or expressions that appeal to the audience you're trying to reach. Writing good copy is not easy. It takes lots of thought and lots of rewriting.

The Illustration

In conjunction with the headline, an illustration commands attention. It explains, emphasizes, shows, shocks or teaches. In general, your ad should always include an illustration to increase readership.

Two types of illustrations are available: photos and artwork (artists' drawings). But don't lose heart. You don't have to be an artist or a photographer.

Photographs

Use photographs when realism is important. Most consumer products, tools, instruments, food and "real" things and people using those products are best shown in a photo. If your product or service helps people look better, for example, you should show this as accurately as possible.

If you have some photography talent you may want to fill your own needs. But most likely, you'll have to use other resources such as:

a. Your suppliers, manufacturers, trade associations or others who can supply photos of the products they are interested in promoting.

b. A professional photographer. Because their prices and skills vary widely, get price estimates from several.

For most situations, the photos you use should be 4x5 or 8x10, black-and-white, sharp and clear, in focus, with good contrast betwen dark and light areas. The publication can reduce them to fit your layout, discussed later.

A good photograph draws attention to the subject, avoids unnecessary detail, shows the main benefit and ties in with the headline.

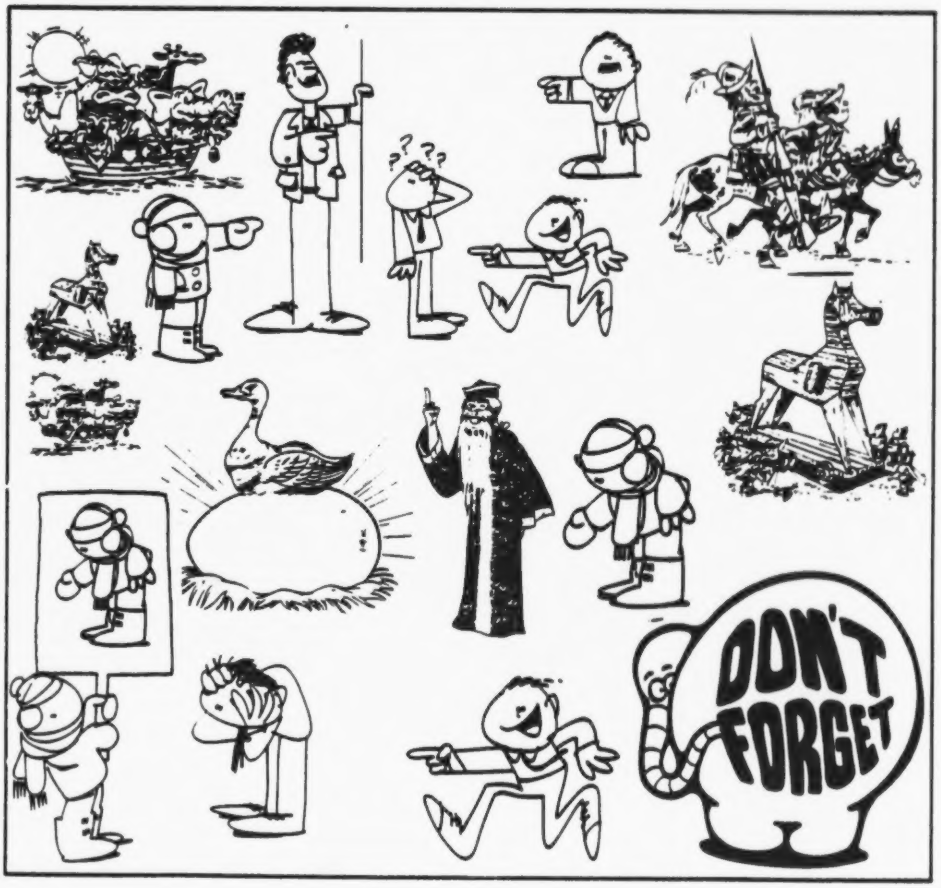
When a photograph is printed, you'll find its image on paper consists of tiny dots. That's the only way it can be reproduced in your ad. Those dots are called a **screen.** A screen may range from course ("85-line as used by most newspapers) to fine ("150-line" as used by better magazines).

Artwork

An artist's rendering is a good choice for certain advertising situations. Some ideas or moods are best portrayed with art. At times only artwork will put an idea across.

As with most professionals you hire, artists may charge fees that seem very high. Be prepared to pay $40 to $60 or more per hour. But that will be a bargain when you see your ads creating business for you. Interview several artists, explaining your needs thoroughly, until you find the right mix of talent, fee and compatibility. Ask to see some of their work.

Although "original" artwork is the ideal, you have other choices. Depending on the nature of your business, you should consider using **"Clip Art"**. These are stock illustrations that can be clipped from a printed sheet and pasted into the ad layout, ready for reproduction and printing. Clip art can include drawings, photographs, various art devices and even headlines.



Most manufacturers provide free clip art and ready-to-use ads (called "ad slicks") for dealer promotions that advertise their products. Often you need only insert your company name, address, store hours and prices. Another source of clip art is a clip art service which publishes monthly issues of assorted art. Various books of clip art, arranged by subject matter, are also available. Your local art supply store may sell such books, or refer you to other sources.

If you do need original artwork for your advertising, here's a hint. Printers and newspapers usually have an artist available to assist in preparing ads, either free or at comparatively low cost.

In any case, it's a good idea to start your own advertising library. Begin saving advertisements from newspapers and magazines that appeal to you. You'll see what the professionals are doing and you'll find plenty of good ideas for your own ads.

Illustration Style

Once you have determined an illustration style that suits you and the personality of your business, stick to it. Consistency from one ad to another will help establish and reinforce your "image" in the minds of your prospects. Your choice of style has a price tag, so be careful to stay within your budget.

Type Style

If you create your own ads, you should be aware of the wide selection of type faces available. Typography is a fine science in itself, so you'll probably need help from your printer. Be aware of the impact different type faces have on the reader, as well as on your consumer image. You'll want to make a type selection that is appropriate for your business, and, perhaps, distinctive.

In general, limit your choice to one type face for headlines, subheads and prices, and another type face for body copy. You can add emphasis and variety by using different sizes, italics and bold face versions of your two basic type faces.

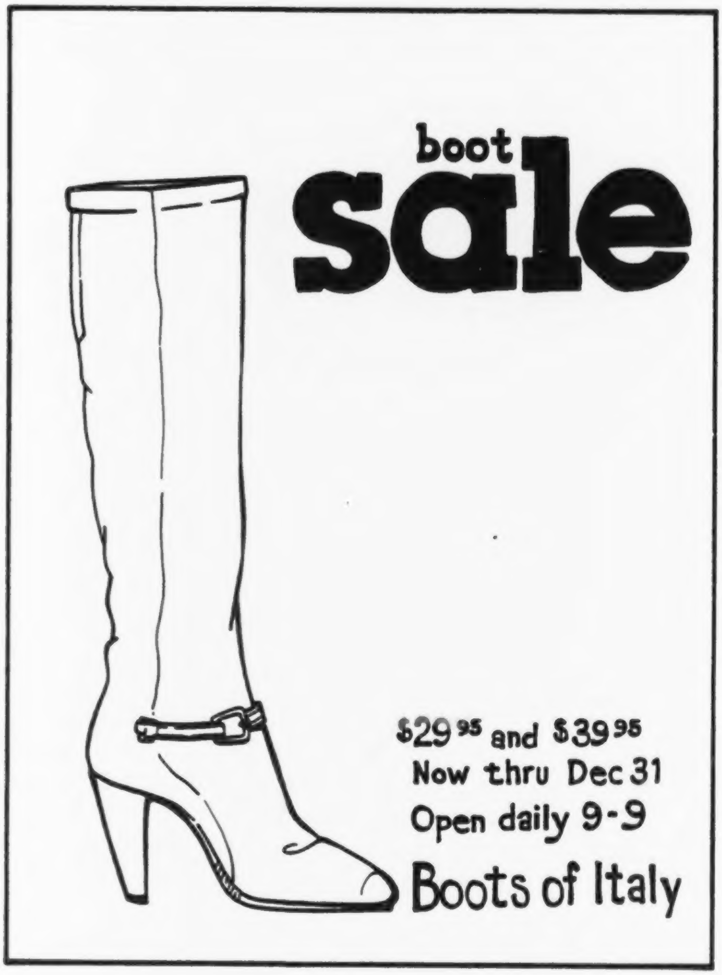
Color

A little color goes a long way toward making your ad stand out on a page, especially if the page contains other ads. Studies have shown that adding just one color to a black-and-white ad can boost readership 50% or more. Color adds excitement and recognition to an ad. But be aware that each color you add also adds to the cost. You may find, for example, a second color increases your cost 35%, and still be a good investment. When you start measuring results, you can test this concept for yourself. If you decide to use color, use it sparingly and only to highlight the most important words. Otherwise, its effect will be lost.

White Space

Another technique for making your ad stand out on a page filled with print is the proper use of "white space." If you resist the urge to fill every square inch with something, and allow for just the right amount of white space, you'll add elegance and distinctiveness. It may seem painful to pay for space that "isn't working" for you, but the end result will pay dividends.

Look at how the white space in the following ad works just as hard as the headline and illustration to attract attention to the message:



boot

sale

$\$29^{95}$ and $\$39^{95}$

Now thru Dec 31

Open daily 9-9

Boots of Italy

Signature

Your store or company name - or logo - plus your address, telephone number and hours are all included in the signature portion of your ad. Normally this information is placed at the bottom of the ad in a type size that doesn't fight against the headline. If you have developed a logo, always use it in your ads.

Layout

This is not meant to be the last step in creating an ad. Often a layout should be visualized before or during the writing phase. All elements of your ad - the headline, the illustration, the body copy, the price and the signature - must work together.

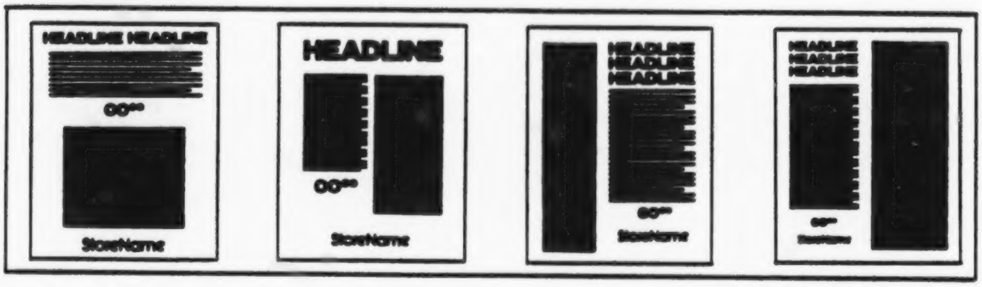
It can be fun, as well as a challenge, to lay out an ad. If you like to write your own copy, but need the help of an artist to put your ad in final form, then a rough layout is a big help in putting across your ideas. Whether you are dealing with a newspaper advertising salesman, a magazine representative or directly with a printer, your rough sketch is probably all they need. Their art department will take it from there.

Here are some general rules to guide you:

1. Make your layout exactly the same size as the final ad.
2. Organize all elements of the ad so that it communicates clearly to the reader.
3. Make sure the benefits of your product or service are featured.
4. Use an illustration that's large enough to show what you are selling, and show it in use if possible. Large illustrations get better readership. Show products such as clothing, tools, equipment, etc. being used by people.
5. Strive for a clean, uncluttered look, with good balance of white space.
6. Try to reflect the character or image of your business in the layout. Does it appeal to your basic audience?
7. Visualize your ad on a typical printed page. Does it command attention?

Although there's an infinite variety of layouts, we'll show you a few basic ones for standard situations:

ONE-ITEM ADS


HEADLINE HEADLINE
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StoreName
HEADLINE
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StoreName
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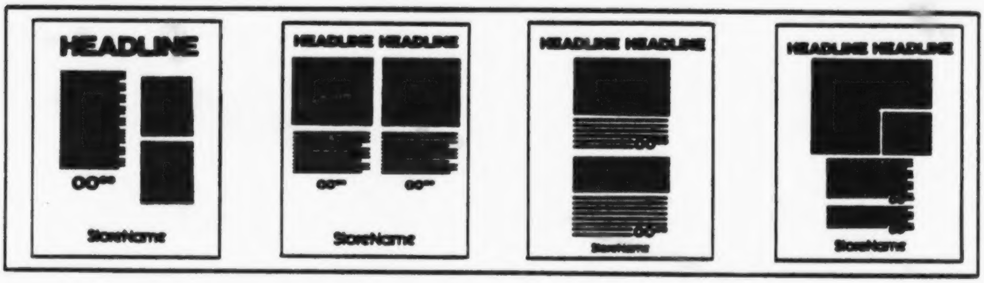
StoreName

TWO-ITEM ADS


HEADLINE
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StoreName
HEADLINE HEADLINE
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StoreName
HEADLINE HEADLINE
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StoreName
HEADLINE HEADLINE
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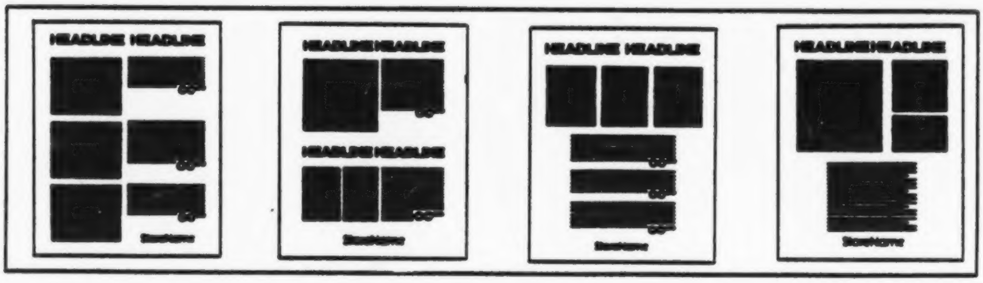
StoreName

THREE-ITEM ADS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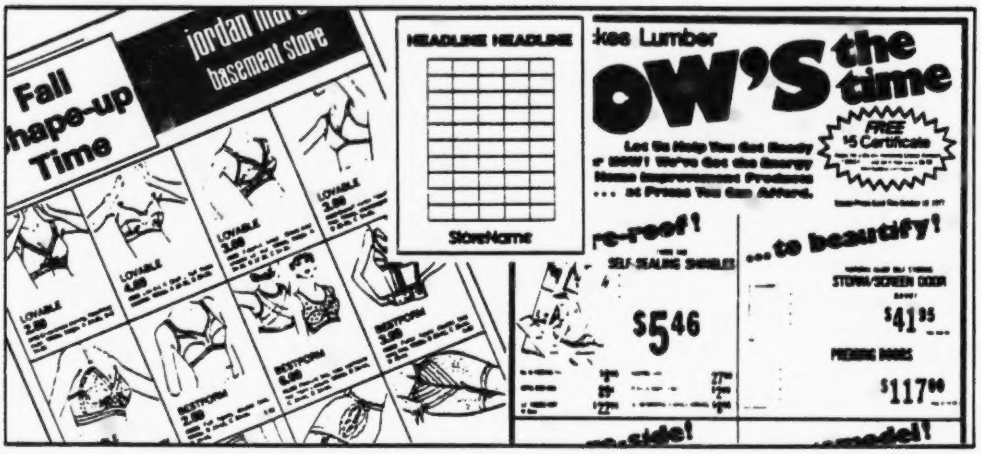
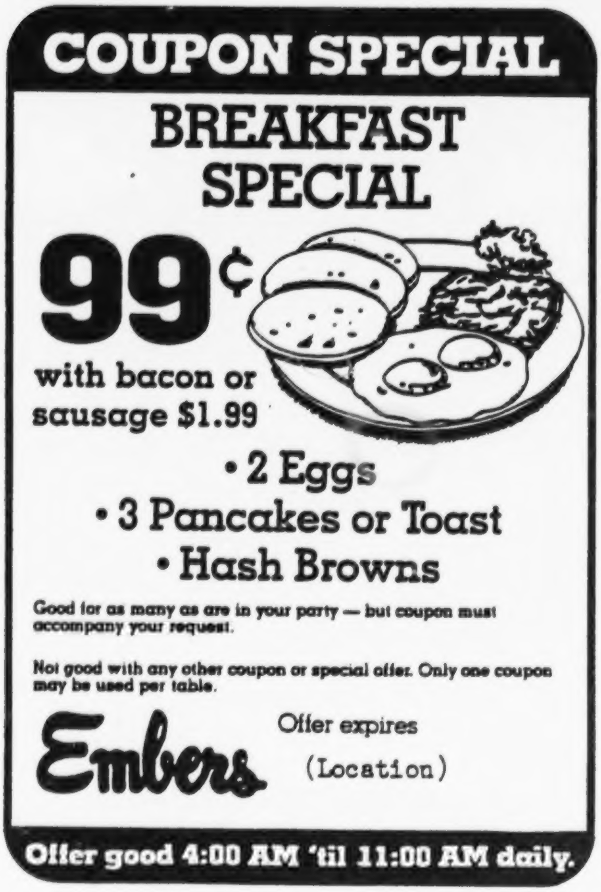
MULTI-ITEM ADS


jordan mar
basement store
Fall
hape-up
Time
LOVABLE
BESTFORM
HEADLINE HEADLINE
StoreName
kes Lumber
OW'S the time
FREE
$5 Certificate
re-roof!
SELF-SEALING SHINGLES
$5.46
...to beautify!
STORM/SCREEN DOOR
$41.95
PREHUNG DOORS
$117.00
side!
model!



COUPON SPECIAL

BREAKFAST SPECIAL

99¢

with bacon or sausage $1.99

- 2 Eggs
- 3 Pancakes or Toast
- Hash Browns

Good for as many as are in your party — but coupon must accompany your request.

Not good with any other coupon or special offer. Only one coupon may be used per table.

Embers

Offer expires

(Location)

Offer good 4:00 AM 'til 11:00 AM daily.

The ad above is simple, yet very effective. Ads like this have run successfully for more than a dozen years for this chain of midwestern restaurants. It has continued to generate new customer traffic, which in the restaurant business is the name of the game. The ads don't do all the work, though -- managers and staff are prepared to make the most of a "coupon customer," to give the kind of products and service that bring them back again.

The Embers ad has a lot going for it. There is an obvious and credible benefit for the prospective customer; it promises quality, good taste, and excellent value. And the layout is very pleasing. Through experience, the Embers management has learned what to expect in terms of response, and the cost of the program is figured into the operating expenses (cost of ad + cost of food given away to honor the coupons).

A Look at Costs

In using any advertising medium, you will encounter two major types of costs:

1. **Production** - This covers any cost you incur in preparing your advertising, and includes:

   Copy writing
   Art (Photos or artist's renderings)
   Typesetting
   Layout
   Keylining (the process of pasting up and preparing the ad for final camera work and printing)
   Proof sheets for your approval

2. **Media** - This is the cost of advertising space, as in a publication, or time, as with broadcast media. This would also include printing and distribution costs of direct mail.

MEASURING RESULTS

It's difficult to know how effective your advertising is unless you **measure** the results. This is not a haphazard process or a warm glow you get from ringing up sales. Actually, it can be very scientific.

The first step is to design your ad, your direct mail piece or your commercial message with measurement in mind. This is especially important during the early phases of your business in order to channel your precious few advertising dollars into the most effective media. Here are a few measurement techniques to consider:

> **Use a coupon.** Ask the reader to fill out a coupon included in the ad, noting their name, address and telephone number. By mailing it in, or bringing it in, they receive a free brochure, a discount, a premium or something of value. All you need do is count the returned coupons and arrive at a ratio of coupons to the cost of the ad, then compare this with other media running the same ad. By requesting the telephone number, you have an easy way to follow-up later.

Offer a discount. A special discount - say 20% - to those who bring in the ad, or at least mention it, is an excellent way to measure results. Try this in competing newspapers or magazines to compare their pulling power.

Use a "key number." This is a system of identifying an ad you ran in a particular publication. Each ad you run includes a number - often a "Department" number - assigned to it so that the responses addressed to that department may be tallied.

Simple count. After your ad runs, conduct a count of dollar sales or unit sales for a logical period of time, then compare that count with a similar period when there was no advertising. This is less accurate as a measurement system, but its simplicity makes it very attractive.

Traffic Count. Retailers often measure advertising by conducting a count of store traffic in excess of "normal" for a period of several days to several weeks.

Conduct a contest. Contests can be smashing successes or dismal failures, depending on how well they're planned. Your business, and your creativity, may be just the right combination for a successful contest. Guessing games, treasure chests ("If your key opens the chest, you win...") and events which easily involve people are best. Avoid essay contests. Announce your contest in local media, involve an entry blank (for measurement), and send a "thank you" follow-up.

Conduct a survey. A survey takes more time and effort, but you can learn a lot about your advertising. It affords the opportunity to go beyond the obvious: "Where did you see our ad?" to subjective questions: "What do you **remember**, or what did you like about our ad?" Your local high school distributive education class may agree to help you conduct the survey.

If You Use Direct Mail --

A reply card. Make it a practice to use a business reply card with every mailer you send out. It is the simplest form of response and extremely easy to count. The post office or any printer can help you with the correct format.

Incoming calls. You and your employees need only ask, "Did you see our mail offer?" The results are tallied, and you have a quick measurement of your mailer.

Telephone follow-up. If you have access to the telephone numbers of the same people you have on your mailing list, you have both an ideal measurement opportunity and a rare sales opportunity.

Measurement Methods

The role of advertising is to create a favorable climate for sales, or a willingness - a **motivation** - to take action. In brief, advertising creates a **response** of various sorts.

Response may be in the form of a returned coupon or reply card, a phone call, a letter (the foregoing are called "inquiries"), a vote, an appointment, a warm body walking through your door, or best of all...an order.

Each of these responses costs something, and you should keep track of both responses and cost. The formula is simple: Ad cost divided by number of responses equals **cost per response.**

Your cost per response is an interesting device that will serve three purposes:

For comparing media

For tracking a particular medium's effectiveness over time.

For comparing the effectiveness of various ad options. (Example: full-page vs. half-page, or black-and-white vs. color)

If the nature of your business is such that you can trace particular sales to advertising, then the most meaningful measurement will be the advertising **cost per sale.**

By checking the cost per sale, you can detect problems with your media selection. You may find, for example, that a certain publication produces many responses, but very few sales. Your conclusion would be that this publication produces responses of poor **quality**. You can readily understand that QUALITY of response is far more important than QUANTITY.

Keep accurate records of your advertising results. Based on your records, you'll want to make adjustments in your media schedule. And adjustments will be necessary at times because you'll make some mistakes in media selection, just like the so-called experts.

Help Available

Speaking of experts, there are many available to help you. If you consider advertising as an **investment** rather than an expense, perhaps you won't hesitate to seek help. But whether or not you pay for help, there are plenty of resources:

1. Your local library has many books on advertising.
2. Trade associations often publish advertising guides which include instructions and sometimes clip art designed to promote their cause.
3. Media salespeople can be a big help. If you buy space or time through them, they are often prepared to help with copy and artwork.
4. Your nearest Better Business Bureau or Chamber of Commerce provides tips and checklists.
5. Manufacturers and their sales representatives are a source of free advertising muscle. Some offer free ads for certain occasions and special promotions, and they provide advertising materials and cooperative advertising programs picking up part of the cost of space you buy.
6. Freelance creative people who work on a fee basis. They may be employed by an advertising agency, but take on after-hours work.
7. Advertising agencies. Let's talk about that. . .

WORKING WITH AN ADVERTISING AGENCY

The bigger your business gets, the more likely you will need an advertising agency. An agency can handle any part, or all, of your advertising needs, depending on your budget and your need for outside help. Their expertise in the areas of copy, art and media can make a significant contribution to your success.

Advertising agencies are basically factories for creative communications. These are the people who put the ads together and buy the media on your behalf. They are run like most businesses: they need objectives, schedules and budgets in order to do the best job.

Ad agencies earn their money in three basic ways:

- They may charge an hourly fee for the time their people put into a project.
- They may charge a flat monthly fee.
- They may receive a commission for buying media that will run the ads.

Handle the fee-for-service like you would handle any other vendor and insist on a bid up front. Do not let the meter run without an understanding beforehand what the cost of the work will be unless you enjoy being surprised by large bills!

Don't begrudge the agencies their media commissions. In most cases, they earn it. The media buying process is almost an art in itself. If they are doing their job, an agency will scrutinize all the options and make only those "best buys" that get your message out in front of the largest number of prospective customers. The media sell the agencies space and time at a 15% discount; they in turn mark it back up to the "card" or published rate, and that is what you are billed. Sometimes the commissons are negotiable, depending upon how complicated the advertising schedule is.

Ad agencies have their place. You may be surprised to learn that there are many smaller agencies in your city that would be delighted to have your business. If the chemistry is good, you will find them to be sincere, hardworking, and very, very helpful. Most good agencies recognize that their future income depends upon making the sales happen for you, so you both share the same goals. Ad agencies are extremely useful in bringing an objective marketing viewpoint to a campaign, and they are generally very resourceful. Most are not as rich as you think, so plan to pay your bill on time to keep their attention on your account. Since you know approximately what your budget is, you are in a good position to shop for the right-sized agency to service you.

Alternative: A Graphic Design Studio

Here's a $100 idea: if you have a very meager budget to start with or are uncertain how big the ultimate budget may be, locate a graphic design studio instead of an advertising agency. The graphic design studio will be able to handle the preparation of your materials just like the agency, but they will expect you to buy the media yourself. If you present yourself as an IN-HOUSE ADVERTISING AGENCY for your firm, you may qualify for the 15% agency discount! Obviously, this is going to stretch your ad budget even further. It's a little more administrative work for you, but generally well worth it. Don't ask for the discount, either -- TELL the media reps you qualify for the discount, and you are going to take it.

PROMOTIONAL EVENTS AND IN-STORE ADVERTISING

In-store advertising is an essential key to success in any retail business. How often do you walk through a store that is bland or virtually bare of attention-getting signs and displays?

Compare this with a store that seems alive with activity. The difference is a number of in-store promotional and display devices. These include:

Window displays
Window banners
Signs, posters and banners
Outside signs
Point-of-purchase material
Counter displays
Shelf and gondola arrangements
Dump displays
Rack set-ups
Price tags and pricing
Mechanical displays
Dust-free shelving and products
...And more

There are also a number of audio techniques. Consider using a public address system to announce sale items. Or use a tape recorder to announce this week's "SPECIALS." A videotape or slide presentation can do the same with additional visual impact.

These promotional ideas and techniques are all part of advertising because they communicate a sales message. Each device is the result of thinking, planning and testing. But the key behind their use is **advertising-mindedness**...an attitude that seeks ways of influencing potential buyers.

You'll have countless opportunities to use your skills in advertising and sales promotion. First and foremost will be your Grand Opening, unless you're already in business.

Beyond that, the opportunities will literally deluge you:

Christmas Sale - New Year's Sale - Valentine's Day Sale - Easter Sale - Washington's Birthday Sale - 4th of July - School's Out - Back to School - Vacation - Thanksgiving - Election Day - New Location - Inventory Close-out - Sidewalk Sale - Community Festival - Truckload Sale - Carload Sale - Pre-Inventory - The Boss Is Away Special - Used Merchandise Sale - Factory Seconds - We-Made-A-Mistake-On-Our-Order Sale - Roll Back the Prices - Moving Day Sale - Remodeling Sale - Just for the Sake of a Sale Sale...and on and on it goes.

It doesn't take much imagination to think of an occasion for a sale. The imagination enters into planning, plotting and scheming how you can make the most of each occasion.

You don't have to spend a bundle to create sales, as our next chapter discusses.

In Summary...

You've learned a lot in a very few pages about advertising. You have a better idea of what advertising can do specifically for your business. You know how to develop an advertising budget, a media plan and a media schedule. You realize now how the experts think when they put an ad together, and how each element of the ad must work together to produce a positive result. With a little practice, you can start doing the same. Finally, you've learned what to expect when working with an advertising agency.

Good advertising is one of the best investments you can make in the future health and growth of your business. And now you're better equipped to take charge!

CHAPTER 9

Publicity and public relations

Make alot of noise on a shoestring

It was the winter of 1982. The new domed stadium was the pride of the city. The dome bulged haughtily, looking like a partridge in its mating dance.

But, then the snow fell -- 20 inches of it all at once. The weight was too much for the dome to support. The dome deflated and fell onto the playing field. It all looked like a bowl of oatmeal.

The next day a picture appeared on the front page of the newspaper. Workmen were on the roof shoveling snow. The caption identified them as employees of Porpoise Temporary Personnel Service.

That plug saved a struggling small business. Job orders jumped. Porpoise Temporary Personnel became an overnight success. The power of publicity did it. It is a power that any entrepreneur can harness with little effort and even less money.

Yet, it is this important: Publicity can be the one element in a business plan most responsible for keeping a new business off the trash heap of dead dreams.

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How? Consider the fact that no matter HOW great you are, you might as well be invisible if nobody KNOWS about you. (That's why mothers enter their little girls in beauty pageants.)

Sure, there ARE other ways to create awareness of your company and need for your products and services. But they all cost much more than publicity. Maybe you can't afford enough advertising and sales promotion to help your business thrive. But, you CAN afford publicity.

In this chapter you will learn how you can get beneficial news, features and photos into the print and electronic media, even if you dislike writing. You will learn the DO's and DONT's to observe, plus how to take advantage of the newsworthy things going on in **your** business. And you can make things happen that can keep you and your company "in the news".

DEFINITIONS

What is publicity?

It is one tool of public relations.

It is the process of communicating positive information to your marketplace.

Publicity usually appears in the mass media, but information conveyed by word-of-mouth is also publicity.

It is the entire process of developing a favorable reputation -- a positive "image" -- by conveying impressions.

Public relations might include:

1. The logo on your delivery vehicles.
2. Personalities of your salespeople.
3. The sign on your place of business.
4. Your treatment of your employees.
5. Quality of your products or services.
6. Your business location.

There are many means of employing public relations to convey impressions, thereby developing opinions, and either more firmly fixing attitudes or changing attitudes. Publicity is one of them. There are hundreds more, including:

1. Special events such as open houses.
2. Year-end bonuses to employes.
3. Generous return policy.
4. Participation in community events.
5. Honest, reliable business practices with suppliers and customers.
6. Speeches by company executives.
7. Charitable contributions.

It is important to point out the fundamental difference between PR and advertising: One pays for advertising but he had better not try to pay for PR. Advertising is placed with advertising salesmen. Publicity, one form of PR, is "placed" with editors and reporters who work in the EDITORIAL DEPARTMENT.

By the way, always deal with reporters and editors when submitting publicity material or an idea. You will win the lasting hostility of reporters and editors if you enlist ad salesmen to carry your publicity to the editorial department. Even if you are an advertiser, don't expect the editor to feel obligated to you.

There is a code of objectivity among professional journalists that demands they judge news on its own merits. They resent it when you try to bypass their professional judgment.

Sure, you may get your news release in the paper; but you'll get only bare bones treatment. And the day an editor or reporter can legitimately avoid giving you coverage or call your competitor for a quote instead of you, they'll do it.

DIFFERENCE BETWEEN PR AND ADVERTISING

PR differs from advertising in that it sells your company and the people behind your merchandise and services. Advertising sells your products and/or services. PR makes your statements believable and develops your reputation for values such as fair dealing.

PR and publicity sell your whole operation -- your store or business. It sells ALL your merchandise or services, not just that which is advertised.

PR conditions your markets to be receptive to your advertising -- and to your salespeople. If people have positive attitudes toward you, they will react positively to your advertising. If they have negative attitudes, they will react negatively to your advertising.

PR develops relationships, reputation, and "image" of the seller of goods and services that make it POSSIBLE to sell goods and services. If mention of your store name leaves a bad taste in the mouths of consumers, then it's unlikely they're going to buy anything from you.

This principle worked wonders for a company whose product was advertising -- a small radio station in Eau Claire, Wisconsin. The company developed excellent personal relations with advertisers by paying the membership dues for ad salesmen who joined service clubs, encouraging their activity in community groups, and staging regular public events -- Summer-in-the-Park band concerts, orphan animal sale in conjunction with the Humane Society, a cookout and dancing around a motel's swimming pool for owners and managers of advertising clients and their families, and so on. The radio station dominated its market though other stations offered programming of equal quality.

The **BIGGEST** difference between PR and advertising, of course, is cost. To gain an appreciation of the amount of this difference, compare what it costs you to get a story published in the paper with the cost of the space or time occupied by the story if you had bought it as advertising.

Your best "advertising" sometimes is publicity that costs no more than the price of paper, postage and the time it takes to

272

write and type a release or to call a reporter. Add to the cost difference the greater **benefit** achieved by publicity and you will see how valuable it can be. The benefit is greater because readers (consumers) have less resistance to it than to advertising. Publicity has greater credibility than advertising.

Advertising has an ax to grind, but publicity is apparently objective news and features. Publicity benefits from an apparent "secondary endorsement" of it by the medium that **chose** to run it.

PR AND ADVERTISING: A GREAT TEAM

Despite the special functions of PR that differ from advertising in many cases, PR and advertising make a great team. When a PR campaign is conducted during an advertising push, PR (perhaps publicity) adds tremendous bang to your advertising bucks. If, for example, your products or services are seasonal in appeal, publicity can be timed for those seasons to add impact to advertising.

Publicity also maintains awareness of your product or service **between ad campaigns**. It's the low-cost way to preserve advertising momentum. If you advertise 20 weeks of the year, PR keeps your products or services in the public eye the other 32 weeks.

WHY BUSINESSMEN SOMETIMES REJECT PUBLICITY AND PUBLIC RELATIONS

You may hear a business acquaintance say:

> "I don't know if it does any good. When I run an ad, I get results that I can **see**. The results of publicity often are impossible to see or they are intangible. So, how do I know that PR does **any** good? My money and my time might be wasted."

PR results often are intangible; but so are religion, love and democracy. Are they, too, unnecessary?

Another businessman may say: "I don't need PR. My customers and the community already like me. I do OK without it."

But, listen. Though he might initially reject publicity and PR, no successful businessman is likely to reject the logic in this point: If you have a good reputation, make the most of it. Publicize it. And, **Merchandise** it -- as widely as you can. If you're doing well now, you can do even better with the use of PR and publicity.

In other words, no matter how good the bottom line looks, it will look better if you communicate with audiences by means of an ongoing publicity and public relations program that reaches audiences with messages that are more credible than advertising. How can you be against THAT?

Adopting the "I can do without it" attitude is not only dangerously close to an "I don't have to worry about what my customers think" attitude but is also a sign of a malignant thought process that might infect the entire advertising and marketing program -- as it did with a highly successful retail photo store that branched out into color processing in a city of 70,000 that was the trade center for hundreds of square miles.

He was the first processor in his part of the state; so it was important that the public become aware of and comfortable with the new business. Advertising, that was unimaginative and as obvious as all advertising, did not awaken the public and win their attention and favor as publicity could have done.

The business -- with its state-of-the-art, computerized color processing equipment -- died almost unknown and definitely unmourned by the public.

BEGIN WITH A PLAN

So far, this chapter has dealt with differences between advertising and PR. We've pointed out unique functions of PR and noted that PR adds impact to advertising. Now, it's time to get started on a PR program.

To begin a public relations program, you need a plan -- just as you need a plan that includes market research, forecasts, location study, and financing when you start a business.

Plan ahead. Learn to swim BEFORE you jump into the lake.

Plan a PREVENTIVE instead of a CURATIVE PR program. Fire prevention is preferable to fire fighting. The purpose of preventive PR is to develop a reputation that functions like the shield of the Fireman's Fund Insurance Co. - like a buffer against customer dissatisfaction, public complaints, disgruntled suppliers, and punitive local and state legislation and regulations.

Wish
I
Could
SWIM

Once you have that reputation - that shield - work as hard at maintaining it as you work to protect your personal good name.

Don't make the sometimes fatal mistake of overconfidence. A few dollars of prevention is worth $10,000, $100,000 or more in excuses and regrets.

For example, think about a large department store in your area which has enjoyed a fine reputation for many decades. Yet, year after year, the company spends a great deal on public relations and special events to **maintain** its reputation. Perhaps its flower shows and art gallery are well known and supplemented by many other events and almost continuous activities for the public -- from cooking demonstrations to free advice and tips by a wide variety of consultants.

Before you begin preparing a trip, fix these facts firmly in mind:

1. It is unwise to **assume** that your audience will respond to your publicity instantly in the way in which you intend. The reason is that publicity does not always reach its audience. Publicity communicated is not necessarily publicity perceived. Many people might not notice it, especially if it is broadcast at 5 a.m. or if it appears as a lead-in to the Classified Ad section.

What's more, many who do notice it simply won't react to it for many reasons, including fatigue and distraction. So, be wary of stocking up on an item referred to on a local daytime TV home show, for example.

2. Where and when your publicity appears makes a great deal of difference, so aim high. You will benefit far more if a captioned photograph appears on one of the first three pages of the paper or on the first page of the second or third section than you will if the photo appears in one of the quarterly special advertising supplements. Likewise, your publicity will have greater impact if it appears on the evening TV news than it would if it appears during a commercial break for the Late, Late Movie.

3. It is not true that a negative reference is as good as a positive reference -- or that bad publicity is better than no publicity at all. The slant and tone of a story is all important. Ask any politician.

4. Make certain that your intended meaning is very clear to others, not just to you. Word-of-mouth (second stage) communication often has far greater effect than first-stage communication. This is especially true if you reach "opinion leaders" and turn them into communication transmitters.

ELEMENTS OF YOUR PLAN

Basic elements of a Public Relations Plan are: Audiences, Objectives, Media, Programs, Projects, Messages -- and a Time-and-Action Schedule.

Audiences: Customers, prospects, sales force, service organization, dealers, distributors, government, business community, opinion leaders, young people, retirees, housewives, educators, students -- and your own employees, who also read the papers, listen to the radio and watch TV. (Add audiences that are characteristic of your business, industry and community.)

Objectives: Be very clear in your own mind about what you intend to achieve with publicity and PR. Some suggested objectives are: Developing awareness of a new business, bolstering an advertising campaign, or creating a climate of public acceptance for a zoning change request, for instance.

Media: Newspaper (daily, neighborhood weekly); trade and business magazines; free-circulation shoppers, any local periodicals such as a city magazine; regional business publication; Chamber of Commerce magazine; radio stations; TV stations and community cable stations.

Don't forget local offices of wire services (AP, UPI), if there are any, and "stringers" -- people who cover your area for larger media such as the nearest metro daily newspaper. Watch the paper for her/his byline and enter it on your mailing list.

Programs: Possibilities are: publicity; community activities; internal (employee) communication that feeds the renowned "grapevine" that connects your business with the public; youth relations; a program directed at homemakers or at minorities; government relations; and much more.

Projects: A community relations project might be uniforms for the softball team, periodic open houses, or charitable giving; a publicity project might be a by-lined newspaper article on a subject related to your business in which the general public might be interested; and an employee relations project might be personal contact with every employee at least once a week, and birthday messages for the employee and every member of her/his family mailed to the home.

One business owner throws an annual Christmas party for all of his employees and their families, complete with Santa Claus distributing Christmas presents to the kids. It's an event that the business "family" anticipates eagerly.

Messages: What are the positive things that you have to say about your business, your products or services, your personnel, your involvement in the community, and so on?

Time-and-Action Schedules Arrange your projects along a vertical axis, and list months and weeks of the year along a horizontal axis.

277

PR ACTIVITY SCHEDULE

Activity	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Grand Opening Publicity	X										
Grand Opening Event		X									
Special Offer Publicity		X									
Sponsor Block Party-Publicity					X						
Open House						X					
July 4 Sale Publicity											
Photo Contest								X			
Winning Photos to Newspapers									X		

When preparing the Schedule, avoid doing what some businessmen do with their advertising -- put it off when business is good on the theory that they don't need it then. The trouble is, when they DO need it -- when business has turned sour -- then there is no money available for advertising. The truth in the statement that a business should advertise when times are good to maintain demand applies also to public relations.

PREPARATIONS

Your Time-and-Action Schedule (T & A) determines your budget. Prepare an annual budget. Assign a cost to designing news release letterhead paper and envelopes and to printing them, to second sheets, and to postage. Postage will be determined by the number of names on your mailing list and the number of times you will be mailing to each list, according to your T & A.

Consider using "newsprint" paper -- the paper that newspapers are printed on -- instead of bond paper for your news release letterhead. (If you use newsprint, don't print a letterhead on the paper -- a strategy explained later.) The newsprint paper develops rapport with newspaper reporters and editors: They type their stories and headlines on the same kind of paper.

There may be expenses for other PR programs -- refreshments if you have an open house; cost of outside resources if you produce a special public event; rental cost for a film that you place on your local cable channel; long distance phone calls; photography; printing of flyers or brochures; charitable contributions; and the cost of any special project such as building picnic tables for the park.

Mailing lists should consist of names of individual reporters, editors, program directors, news directors and correspondents. You can get a lot of names just by listening and watching for them in the media. Call the media for the rest. Include phone numbers.

Every time you use a mailing list, update it if you haven't used it for three months.

Establish relationships with a photographer, printer, and free lance writer and/or public relations practitioner, if you need one.

Inform yourself about things like:

1. Proper formats for: News releases
   Radio scripts
   TV script accompanying one or more slides
   Captions

News Releases: Start copy on a news release **half way** down the first page and place a headline just above it. This will leave plenty of white space for editors to write headlines and to specify head size. (They will almost ALWAYS write their own headline.) The function of your headline is merely to tell them quickly -- before they throw away your release -- that the release deals with a topic that will interest their readers. /Leave an inch of space in both margins and at the bottom of the page. /Double space lines. /End each page with a paragraph. /At the bottom of each page, until the last page, put the word - MORE - to tell an editor that the story does not end at the bottom of the page. /At the end of the story, put the universal journalistic sign for end, - 30 -.

After the word FROM: in the top, left corner of the first page put your company name, address and phone number. After word CONTACT: in the upper right corner, put your name.

Here's the standard format for the first page of a release:

NEWS RELEASE

FROM: Peon Packard Inc.
327 Picayune St.
Los Cruces, NM 12121
333-4444

CONTACT: Amos O'Reilly

2 FOR 1 SALE
AT O'REILLY AUTO

Every purchaser of a new automobile through the month of November will receive one car free Angus O'Reilly, President of O'Reilly Auto Inc. announced today.

O'Reilly said that . . .

Radio Scripts: Name, address and phone number in upper left corner of 8-1/2 x 11 inch page. Start a third of the way down the page and triple space lines. Leave ample margins. Give the script a headline, just for handy reference. Between the headline and the start of the copy, type: "Time:" (Number of seconds long) and, on the next line, "Words:". Time scripts for 10 seconds (25 words), 20 seconds (50 words) or 60 seconds (150 words).

TV Scripts: It is possible that a TV station in a medium-size or small market will use a very high quality color slide with a script. The script is exactly the same down to the "Time:" and "Words:" lines as radio copy. The body of the script, though, consists of two columns: VIDEO (narrowest column on the left) and AUDIO. In the VIDEO column, number your slides if you submit more than one. Provide one slide for each 10 seconds of script time. Time copy at a slightly slower pace than for radio. Standard announcements for TV run 10 seconds (about 20 words), 20 seconds (40 words) and 60 seconds (125 words).

Captions: Type and reproduce them with copy narrow enough so paper can be cut to the width of the picture. Use transparent tape to affix them to the back of the picture with the caption readable beneath the photo.

2. Characteristics of photos that make them suitable for newspaper reproduction: They should be black and white, and have a glossy emulsion surface. They should be sharply focused and have good contrast. 4" x 5" or 5" x 7" prints are good for close-up photos of one or two people. For larger scenes, order 8" x 10" pictures.

   Never touch the glossy surface; you'll leave fingerprints that will reproduce. A newspaper will avoid the resulting problem simply by not using the picture. Never write on the back of a picture with ANY writing instrument, not even a felt-tip pen. You will push out the emulsion on the photo's surface and the writing will reproduce, too.

With a plan and all the preparations made, you are now ready to prepare and place your publicity. Before you start, though, be aware of these standards that should guide your activity.

STANDARDS FOR PR AND PUBLICITY PROJECTS

- Don't waste your time on a publicity project unless the press is very likely to use the publicity. You simply don't have time to spend on the off-chance that the press MIGHT be interested. Don't waste your time, either, unless impact of the story/script/TV spot will be great. You want what little time you have to spend on PR and publicity to pay off.

- For the same reason, select publicity projects with multiple use applications: The information gathered for a news release or article often can be used as resource material for copy for a brochure or for an ad, or for a letter to customers or clients. Plan ahead.

- Turning on the spigot and drowning the press in news releases does more HARM than good. Most of the releases are sure to be unimportant. It is better to wait until you have something good to give the press. Send only THAT kind of story and you will train the press to expect a good story when they see your envelope.

As a result, more of your publicity will be printed, broadcast and telecast.

RELEASE
HOT!
NEWS
EDITOR
Info

o You can increase the impact of your publicity by sending it to all the media at once: With your news or features in both electronic and print media at the same time, you will stimulate more than one sense at a time (the sense of sight and the sense of hearing) and reach audiences more than once within a short period of time -- thereby reinforcing your messages and increasing the likelihood that they will be perceived and retained.

The important thing about "impact" is that greater impact leads to greater retention of your message. Greater retention, in turn, leads more often to the action desired. Benefits for you will be greater.

o Continuity is another way to achieve impact for your publicity program. Reaching your audiences repeatedly with positive references to your business will reinforce perceptions already received.

After all the messages that McDonald's has aimed at you over the years, the mere sight of the Golden Arches conveys many messages to you.

o A point to remember when your aim is to get publicity into the media is that the press is interested in NEWS -- and features. They are NOT interested in "publicity". (Don't use the word "publicity" when you're talking to a reporter or editor.) If the story or tip that you send them has news or feature value, THEN it will be used -- if there's room.

HOW CAN I RECOGNIZE A NEWSWORTHY TOPIC?

If you're going to have a publicity program, you're going to need something to publicize. So, how will you recognize a story topic when you see one? And, where can you look for topics?

When you are reading the paper or listening to the radio or TV, train yourself to categorize the news and feature stories by topic categories. Then, periodically, force yourself to answer this question: "What is there in my business activities and results that falls into one of these topic categories?" Tell the press about it -- if a story would benefit your business.

At the same time, notice when people at the office, store or plant are talking about a topic. Ask yourself, "Would MOST readers of the Daily Blab be interested in a story on this topic?"

Look for the tie-ins to running stories -- stories that the local media frequently cover or that have just made a big splash. Do you have somebody who is **doing** what the media are referring to? Or did the thing that the media is talking about **happen** to one of your employees or to your business? Or, do you have some information that clarifies or contradicts or supports the point that the press is making or has just made? Tie-ins. When you recognize one, call the press, or send them a note.

Here are some topic tips:

a. Grand opening

b. Expansion

c. Open house

d. New product or line or service

e. Staff promotion

f. Award for company or for executives

g. Retirements

h. Community activity being originated by the company or in which the company is participating

i. Record annual results if your company is publicly held or if you want to brag about them

j. Article on the company that appeared in a trade or professional magazine

k. Report on a public relations activity undertaken by a company such as a special event (orphan animal sale conducted by the Humane Society on your premises, for example)

l. Any "blockbuster" topic such as discovery and development by your company of a perpetual motion engine that powers automobiles for a year on a teaspoonful of water.

TECHNIQUES AND PROCEDURES

Having learned standards to guide your choice of topics -- and where to find story ideas -- you are at the point where you need to know how to present the facts in a news release.

A small businessman, who is not likely to have the publicity staff of a Phillips Petroleum or a Boeing Aircraft Corp. or even the local utility, needs to be resourceful, clever and **willing to use non-traditional methods** BESIDES tried and proven publicity techniques.

The one publicity technique to which all others bow with respect is this: Associate your company and products or services with general-interest, non-commercial subjects that already are interesting to your prospects and customers. This is far better than trying to **develop** interest OR trying to arouse a passion for an obviously self-serving commercial subject.

Call it: **The Generic Tactic.**

The Generic Tactic succeeds because the press shuns "plugs" for commercial interests unless they are a legitimate part of a non-commercial story. Of course, the exceptions to this rule are the occasions when a business or the activities of a business are news in themselves. There is a strong increase in the amount of business news coverage; but, news "breaks" for small businessmen would be as rare as gold nuggets for a grizzled old prospector if they did not use the "non-commercial" publicity technique.

The magic word is "tie-in". Point out to the press a tie-in between your merchandise, product, or service and a news or feature topic of **natural, current** human interest and you WILL get publicity.

If you had sold Cabbage Patch dolls during the 1983 Christmas season, your local media would have stormed your store to get pictures of people storming your store.

If your community is up in arms about a toxic waste dump and you happen to sell a chemical that can neutralize the waste and save taxpayers hundreds of thousands of dollars in clean-up costs, then you'll have no trouble getting your name in the paper.

MODEL SHOPPE
MODEL SHOP

Should you be planning to expand and to hire 10 people, the media will be interested, in a smaller community.

If you are a much better businessman than writer, and if you don't have a writer on your staff, take heart: When you apply The Generic Tactic, you also avoid the need to be a trained scribe.

YOU DON'T HAVE TO KNOW HOW TO WRITE

Draft an itemized fact sheet, or a list of questions and answers, or a "backgrounder" that amounts to a well organized report of the facts relevant to the topic you are proposing for a story. A backgrounder may look a lot like a news release (paragraphs are not numbered as they are in a fact sheet) and the media may end up using it that way -- but it will be entitled:

BACKGROUNDER -- Energy Conservation in Elysium. (Your company is mentioned in the Backgrounder, of course.)

You can also write an outline, if you're good at them, thereby avoiding the need to write the whole story.

The itemized fact sheet is probably the easiest to prepare.

Send the media a Story Tip Sheet, too. (That's simply an informal statement about something you think would make a good story.) Most -- but not all -- of the story tips would suggest ideas that, if they appear in the media as stories, would benefit your business. Reporters and editors would be favorably impressed if you include some story tips that do **not** relate to your business. Jot them down in a small notebook whenever inspiration strikes over a period of weeks.

FACT SHEET
QUESTION-AND-ANSWER LIST
BACKGROUNDER
OUTLINE
STORY TIP SHEET

Formats such as those suggested here often are more effective than ready-made news releases. They do not imply that you expect the media to run what you send or that you know how to do their job as well as they do. These formats imply your willingness to be helpful.

A story that masquerades as a polished piece of writing is likely to do more harm than good. It is likely to be poorly done, so a reporter will react negatively for "artistic" reasons. (Yes, it **does** take training and experience to write a good news story or feature article.) He may also feel irritated at the apparent attempt of an accountant, sales manager, plumber, building contractor, computer store owner, or upholsterer to do his job for him.

His reaction will be influenced by the many businessmen who have snubbed him in public or insulted him on the phone for trying to change the news releases they submitted.

When assembling your fact sheet, backgrounder, question-and-answer copy, or outline that will equip a reporter or columnist to quickly write his own copy, include these elements: Quotes, anecdotes, examples, details (names of things, people, and places), times and dates, sources of additional information including, but not necessarily limited to, yourself.

You can also avoid writing by letting the press do your writing for you.

LET THE PRESS DO YOUR WRITING FOR YOU

It is a practical and time-saving tactic for a small businessman to **get the press to do his writing for him.** You can do this by being cooperative and available, by providing them with ample facts and data, and by making sure that reporters and editors have a permanent record of your expertise, your name, and how to reach you.

One of two techniques that are useful when you are trying to lure the press into doing your writing for you is to send to reporters and editors, by name, a packet that contains a cover letter, file folder, and two sizes of Rolodex cards. Enclose in the folder a Story Tip Sheet, **or** a Fact Sheet, Outline, Q-&-A piece, or Backgrounder.

1. **The file folder** is for file drawers -- a place where reporters and editors can file all information pertaining to your business category -- not just news releases and brochures about your company. When a reporter writes a story that involves the kind of products you sell or manufacture, or your services, he will consult his file -- and there, right in front of him, will be your name and phone number on the file tab.

287

The file folder should be colored, made of heavy stock. (Its quality should be so high that a reporter or editor would feel wasteful throwing it away.) On the tab, print your business category, your name, and your phone number. Don't print your address on the file tab. There's no room.

Kell Manufacturing Co., a kraft box manufacturing plant in Chippewa Falls, Wisconsin, produced a folder with file tab that doubled as a glossy, four-color brochure, with high-quality photos. The legend on the tab was merely: CORRUGATED BOXES. Brochure photos and copy were printed on the front and back and on both inside surfaces.

2. Send Rolodex cards of the two most common sizes, including the standard 3" x 5" index card size that recipients can file in card files if they don't have Rolodex files.

At the top of the Rolodex cards, print a GENERIC SUBJECT on which you are an authority. Then print your name, phone number and address.

Employers Overload, Inc., a temporary help service in Bloomington, Minnesota, distributed green Rolodex cards that bore the generic subject ALTERNATIVE WORK SCHEDULES and below the name and address listed additional topics on which the company can provide detailed information to the press.

In choosing generic subjects for Rolodex cards, select:

SECURITY instead of "locksmith"
MAINTAINING HOME VALUE instead of "basement waterproofing"
FITNESS instead of "sporting goods store"
ENHANCING THE VALUE OF PERSONAL COMPUTERS instead of "software sales"

It will warm your heart to visualize a reporter flipping through his Rolodex card file and coming upon YOUR name and phone number.

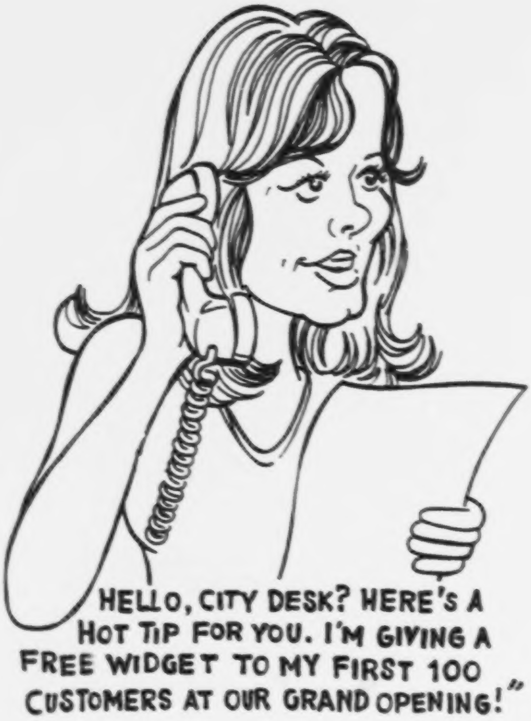
Send your Rolodex cards, file folder and cover letter packet to reporters, editors and news and program directors **by name**, or it may be wasted.

In bigger towns and cities, reporters are specialized; so call the media to get names of reporters and editors who deal with your subjects. In a small town, though, it is only necessary to send the packet to editors and to program or news directors (radio and TV stations). It will make a better impression to use their names, however.

A second way to get the press to do your writing for you is to CALL them.

If you have REAL NEWS, a reporter will be happy to talk with you. You are helping him do his job by calling him with a tip or with all the facts for a story. He will ask the questions. You will answer. Don't worry about a rebuff. (Just worry about having a genuine story to tell.)

Before you call, though, make sure that you have the answers to all the questions that you can imagine being asked.


HELLO, CITY DESK? HERE'S A HOT TIP FOR YOU. I'M GIVING A FREE WIDGET TO MY FIRST 100 CUSTOMERS AT OUR GRAND OPENING!"

BUT, YOU WANT TO WRITE

At this point you know the ways to obtain publicity without writing it yourself. But, maybe you WANT to write it yourself.

So, go right ahead and write. Just don't call the result a "News Release". You may be an excellent news writer, but you will still make a better impression on a reporter or editor if you turn in a Backgrounder instead of a news release that carries with it the implication that you expect it to be published the way it is submitted.

Don't give your Backgrounder a headline -- just a title.

Don't print or type it on "News Release" letterhead that bears your logo. Put it on plain bond. Reporters type their stories on plain paper.

Don't include a release date. Editors and reporters usually don't observe release dates anyway. If you don't want to take the risk that your publicity will be used before the release date, make sure that the media don't receive the material until then, or later.

Every time you write a release, include within the first or second paragraphs the facts that answer these questions: Who? What? Where? When? Why? (the 5 W's) and sometimes: How?

Also: Arrange information in declining order of importance, using what is called the "inverted pyramid" format. This way, an editor can conveniently cut the story from the bottom up until it is the size needed to fill an available space.

Notice the five W's in this lead for a store opening story:

> A grand opening party for Future Video at 967 Robert Street is scheduled to begin at 7 o'clock Friday evening, said Roger Jones, store owner.

Who? Roger Jones and his Future Video store.

What? Grand Opening Party.

Where? 967 Robert Street.

When? 7 o'clock Friday

Why? It's a "grand opening".

MAKE NEWS

It is basic to all these procedures that you have news to tell. But, story topics rarely walk up to your desk and salute.

Unless you **make something happen,** then TELL THE WORLD ABOUT IT, you may wait a very long time for publicity developments.

NEWS RELEASE
ACME

Make news, then make sure that the press is alerted to the news.

Do something that arouses or serves the interests of the people to whom you and the media are communicating, then **communicate.**

When you get into MAKING news and feature topics, then you are becoming professional at practicing publicity.

You can build a warming house at an ice skating rink. Mount a plaque on the new warming house. Set up a ceremony where the mayor or director of parks and recreation accepts it for the community. Tell the media the time and place of the ceremony. Expect a picture in one or more of the media.

Or, write a hard-hitting speech on a topic that is sure to get attention and in which you have legitimate interest backed by thorough knowledge. Send a letter to the leading organizations in town and offer your speech. Obtain a list of organizations from the Chamber of Commerce.

Bring in an authority on home energy savings or job-hunting or home improvement or investments or stress or -- anything related in some way to your business. In letters or phone calls to the media, offer the authority person for interviews, specifying time and place he/she will be available.

PRESS COVERAGE IS NOT A RIGHT. IT'S A PRIVILEGE.

America enjoys freedom of the press -- and that includes the freedom of the press to NOT print your publicity! It's up to you to provide the press with stories and ideas that help them achieve their objectives -- providing news and features that entertain and inform their readers.

Remember why it is unwise to pressure your ad salesman into delivering your news releases.

This is not to say that your stories will not ever appear if you try to apply pressure on the editorial side through the ad side. HOWEVER, the releases will appear more often buried among the obituaries or doing double duty as editorial lead-in to the classified ad section. And, in the future, when an editor sees an opportunity to legitimately avoid using your release, he will immensely enjoy "filing" it.

Another effective means of building resistance to your publicity among editors and reporters is to call and ask: "Did you get my release?" and then ask when it is going to be published.

The president of one service firm was certain that the way to get "press" was to badger the editors and reporters. So, he would send a release then dutifully call the editors and program directors to which they were addressed. Whenever a competitor was mentioned, he would call and ask why the media hadn't called him for a statement. Eventually, the press used nothing he sent, good or bad.

NEWS
RELEASE

It is vital to win and to maintain the friendship of the media "gatekeepers". If they like you, the gate will be open for your news, as long as you don't abuse the privilege. But, if editors and reporters don't like you, even a close family tie with the publisher or station owner may not get you on the air or in the editorial columns.

You know, at this point in the chapter, how to develop a story idea into a news release, how to prepare it, and how to present it to the media.

There are more tools of PR and publicity than the news release, though. Many more. We'll tell you about a few of them.

MORE PR AND PUBLICITY TOOLS

Envelope Inserts -- Like the phone or electric company does.

Personal Letters -- To employees at their homes on birthdays. To customers during holiday seasons.

Speeches -- To civic and service clubs or special interest groups.

Convention and Trade Show Displays or Booths -- From county fairs to shows in major auditoriums of nearby metropolises.

Informational Flyers, Booklets, Brochures, Leaflets -- Stack them by the cash register or near the door. Enclose them with monthly statements. These could be booklets of general interest obtained from your trade association, or they might be user-benefit case histories developed from talks with your customers.

Audio-Visual Presentation -- Videotapes for use with a video terminal or video projection screen. Films. Filmstrips. Slide presentations, including shows prepared with **standard,** existing, inexpensive slides purchased from a firm such as Visual Horizons of Rochester, NY. Just add a title slide and interject one or two slides into your presentation. For presentations to employees, community groups, continuous projection in your store, and so on.

A Variety of Impression-Producing Media -- Music on the phone lines, window display, open houses and plant tours.

SWEET BUSINESS! Bobbie Olde, West Overshoe, and teenage daughter Kathy, put the finishing touch on a fresh batch of chocolate hearts and other goodies for give-away at the February 14 Grand Opening of her new store, CHOCOHOLICS, at 1234 Main Street.

Captioned Photos -- A secret weapon...because they fill holes in layouts, because this is an image-oriented society, because readership studies show that consumers' eyes dart to photos before anything else. Don't take your own pictures unless you have professional talent. Don't send pictures to the media that look as if they were taken with your grandmother's Brownie, or as if they were ripped from a family photo album. Assign a professional photographer to take your pictures who knows the difference between news and portrait photography.

Short Feature Articles -- A short-cut to media coverage. Features almost always involve one feature element...people. Of course, the greatest interest of people is OTHER people. So, stay on the alert for a story that features a member of your staff.

Radio & TV Talk Show Interviews -- Submit proposals to the "program director". Suggest an "expert" on a subject of general public interest...yourself, a member of your staff, a consultant or an officer of your professional or trade organization. Be sure that the subject you propose is consistent with the subject matter of the program.

External House Organ -- A magazine that a company produces and disseminates to its customers, prospects or other "publics". You will know if you can afford it. This is one of the optional forms of publicity that is somewhat expensive.

Newsletter to "Influentials -- Opinion leaders.

Personal letters -- To customers or employees.

Personal Contact -- Face-to-face, one-on-one communication.

Special Events -- Produce a public event appropriate to your business. Events can range from a simple demonstration by a representative of one of the manufacturers whose products you sell to a free concert by your community orchestra that you underwrite, or an Easter egg hunt for children on the lawn of your plant, to a Christmas party (with gifts) for children of your employees, to an ice cream social in the park with cones for a nickel, to a tour of your plant or store with continuous demonstrations, literature hand-outs, and refreshments.

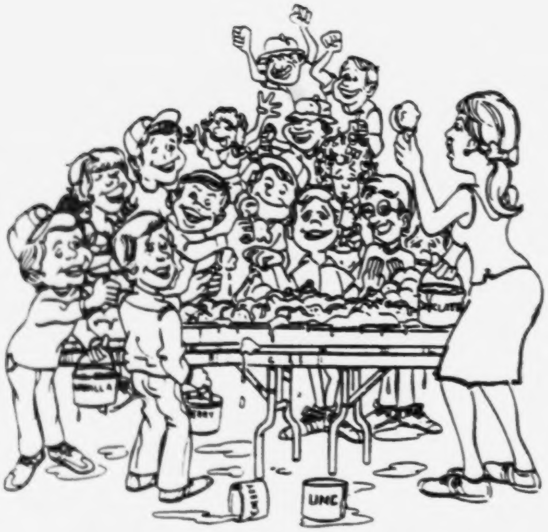
APPLYING THE TOOLS OF PR AND PUBLICITY: SAMPLE PROJECTS

SPEECHES -- If you want to attract favorable attention to your firm by addressing community organizations, prepare a speech, then send letters to the program chairmen of organizations that you select from a list that the Chamber of Commerce most likely has. Send news releases to the media informing them of the time and place of your speech, its subject matter, and its main point. Enclose a copy of the speech with the first release you mail. And send a follow-up release that reports content of the speech as if it were written by a reporter covering it. It is preferable to hand deliver this release within an hour or two -- before the first deadlines following the speech -- to media that did not cover the speech.

FILMS -- Ask your trade association or professional group for a list of available films including title, subject matter, and length. Offer them by letter to the program chairmen of organizations in your trade area. Also announce their availability in a news release or fact sheet. Require advance reservations allowing yourself enough time to order them.

INSTITUTIONAL ADVERTISING -- When you want total control over your message in a medium, buy space or time. You can present a feature article, a news story, an editorial or other format.

PUBLICITY FROM A SPECIAL EVENT -- Assuming that you own a retail store, the next time the commercial club has a sidewalk sale, invite the Home Economics Club from the nearest high school to make a sundae on tables across the full width of your store front -- the biggest sundae in Punxutawney County. Invite the Mayor or another highly visible public official to take the first bite. And, tell the newspaper and TV station about it in advance. There's a good chance that you will get a picture in the paper or on TV -- especially if the media had planned to send a photographer to take "a" picture at the sale anyway. Let the Home Economics kids eat what they can of the sundae and give the rest away -- one sundae with each purchase. (Make the sundae in dry ice to preserve it until you can give it away.)



MERCHANDISING PUBLICITY RESULTS -- Offer one of your display windows for use of community groups. Reserve the right to review the display before installation. An ugly display or one that is in poor taste would reflect on you.

A SURVEY -- Conduct a telephone survey, selecting every fifth or every tenth name in the phone directory to get a random sample. Or, put out forms for customers/clients to fill out, indicating their views. If the topic you choose is of widespread public interest, you will get press attention when you tell them about it. If it is consistent with your present public image, it is appropriate for you to conduct such a survey on a topic of community interest -- whether or not an ice skating rink should be built, what should be done about a rash of home burglaries, or how to deal with an apparently large number of child beatings, for example. Be sure the topic ties in with your business.

PARTICIPATE IN A COMMUNITY CABLE TV SHOW -- Either suggest a show that would involve your expertise, or be quick to volunteer to help when such a show is being produced. Appearing on community TV is a fine way to develop a reputation as a community leader and, as a result, to develop positive local opinion about your company.

BENEFITS OF PR: WHAT IT CAN DO FOR YOU

1. Public relations and publicity can and frequently do boost sales:

    a. By means of special events that build excitement.

    b. By inducing your salespeople to live up to the reputation that PR builds for the company -- and to fulfill PR-generated expectations of them. The result? Higher sales figures and repeat business.

    c. By developing sales leads.

    d. Some examples of publicity that affected sales:

        * Publicity alone developed names of 3,000 people so intent upon buying 220 homes in the Village of Woodbridge, California, that it was necessary for the developer to select buyers by lottery.

        * During a nine-month introductory period of a new magazine, **New West,** publicity resulted in broadcast time that would have cost $2,440,600 if it had been bought as commercials.

        * The best continuing proof of the value of publicity probably is professional sports. Multi-million dollar teams spend very little on advertising. It is publicity on TV news shows and in the newspaper sports sections that pulls in the fans.

2. Induce more customers to pay their bills on time, thereby saving collection costs.

3. Win "favored customer" treatment from your suppliers who ALSO are reached by your PR -- in the trade press, for example. You may get hard-to-get merchandise. Your merchandise may be shipped earlier.

4. Win a cordial reception for your salesmen and pre-sell for them.

5. Make it seem, as a result of a good reputation, that your products are "better" (higher in quality), and that you give better service -- in an economy where goods and services offered by competitors often are very similar. This "competitive edge" can make it unnecessary for you to cut prices, offer a lot of sales, and provide deals of various kinds, all of which cut into profit.

   a. A good reputation distinguishes your company from your competitors. Your PR-generated "image" can be the one thing that makes your business more prominent in the minds of prospects and customers. It's called IDENTITY.

   b. A GOOD reputation -- just like a BAD reputation -- is hard to live down. Once developed, a good reputation will be your comfort through hard times, your inspiration when business is bad.

6. Pre-condition prospects and customers to react well to your advertising. PR lays out the red carpet for advertising, making it more effective -- giving you better results for the same expenditure. This is clearly a way that PR stands for PR-OFIT.

   To make it clear how significant PR pre-conditioning is, consider the consequence of a **bad** reputation: There are stores you wouldn't shop in no matter how often they "reach" you with advertising, right?

   PR is a seed bed in which advertising grows and flourishes. PR increases receptivity of audiences to your ad messages. Good PR, conveyed partly through publicity, augments the effectiveness of your advertising. You get MORE ADVERTISING BANG FOR YOUR BUCK.

Advertising and PR, working together, achieve more than either could separately. Call it "Symbiosis". It's like a quarterback and his linemen. Either one playing a game without the other would be severely handicapped, to say the least.

Ads of a company with a good "reputation" -- like Avon Cosmetics -- produce more profitable results than a company such as Avon Truss and Strap Co. that nobody ever heard of.

7. Induce customers to ANTICIPATE good merchandise and service. They are less often suspicious and unpleasant.

8. Achieve FAR greater BELIEVABILITY and acceptance for your messages than ads do. In many situations, publicity conveys your message far more easily than ads, at a tiny fraction of the expense, for this reason:

   Ads and commercials obviously are selling something. But, a news story, a feature article, or a captioned photo is not designed to sell merchandise. They benefit from secondary endorsement by the medium itself that decided that the item was worth printing. The medium is saying, in effect, "This is something we think you will be interested in or that you will learn from." People still believe that if they saw it in the paper (heard it on the radio, saw it on TV) then it **must be true.**

9. Attract the best people to work for you. They take jobs when you offer them.

10. Win better treatment from government officials when you apply for licenses, special use permits, tax exemptions. Reputation makes a difference.

11. Prevent problems such as consumer complaints, critical news stories, even labor disputes.

12. Produce articles, stories and photos that can be reproduced and used as door openers, leave behinds, and integral parts of sales presentations.

    When **Reader's Digest** published an article about Tracer Company of America, a company that located unclaimed bank accounts and legacies, the company received 438,000 letters.

13. Lay groundwork, in terms of public or governmental understanding, for contemplated action by your company that is potentially controversial.

    If you plan to contest the city for a parcel of land that the city wants to develop as a park, you should tell the public that using the land for an extension to your building will increase employment -- and point out that the city already has more park land than any nearby town.

14. Help overcome adverse publicity arising out of litigation, or a problem you are having with local zoning authorities, for instance.

15. Help you get the greatest possible benefit for your business from an achievement of some kind such as receiving the TOPS (in service) award from your franchisor.

Publicity and public relations can do just about anything that advertising can do -- except push products. Consider advertising less and using PR and publicity **more** -- and saving money in the process.

* * * *

CHAPTER 10

The right supplies from the right suppliers

Wise purchasing is to your credit

As a small business owner, you naturally want your business to succeed and be profitable for you. Many factors will contribute to this success. One very important part of this is purchasing the items you'll need to run your business. That is, the merchandise you'll sell, and the supplies you'll use.

Purchasing is not only a matter of buying what you need at the lowest price. Price is certainly an important consideration. But other factors need to be examined, too. Purchasing is usually thought of as, "buying materials and services of the RIGHT quality, at the RIGHT price, from the RIGHT source, in the RIGHT quantity, at the RIGHT time."

Disregarding any of the above "RIGHTs" could be disastrous. It may not always be possible to have them all when you make each buying decision, but you should know what you are giving up, and allow for it in your regular business activities. An example might be getting the right quality merchandise but having to wait an additional 7 days to receive it. If you know this ahead of time, you may be able to order earlier. If this is not possible, a delay could be used as a selling tool, having your people emphasize to their customers that you are not willing to sacrifice the quality they demand in order to make a quick sale.

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In this chapter you will learn:

1. Where to find sources of supply for merchandise you'll resell.
2. How, what, and where to buy supplies and incidentals.
3. How to shop for various features such as quality and price.
4. How to negotiate with suppliers.
5. How to keep track of your inventories.
6. How to price merchandise.
7. What to consider when stocking a retail operation.

SOURCES OF SUPPLY

There are really only two types of buying you'll do for your small business: buying merchandise for resale, and buying goods and services to be used in running your business.

Merchandise for Resale

One easy and convenient source of information on where to buy merchandise is directories. This section will discuss some of these publications.

Yellow Pages. The Yellow Pages in your telephone directory is probably the best place to look for supply sources. It will give you a very complete listing in your area.

In addition to the Consumer Yellow Page Directory, there may be a "Business-to-Business" directory for your community, published either by the telephone company or some other private company. If available, these will usually have a more complete list of wholesalers, distributors and manufacturers.

Industry Directories. Each industry usually has at least two major information sources available to help you locate suppliers. They are Trade Associations and publishing companies specializing in trade magazines.

1. **Trade Associations**

   Trade Associations publish directories of their memberships. The associations may be national, regional, state, or local in scope. "The National Directory of Trade Associations," published annually, lists them all providing name, address, and phone number. The directory is usually available in either your public library or the Department of Commerce Field Service Library.

   In addition to membership directories, most associations usually also publish an annual directory of services and goods offered by their members. If the association you are interested in does not have such a directory, a phone call or letter to the association office requesting the names of suppliers in your area should get you the information you need.

   Your public library may also have a business or commercial section where they keep files on various associations.

2. **Periodicals**

   Magazines, newsletters, or other periodicals are published for every industry, focusing on information of interest to subscribers. They may be local or national, and both may be of value for your business. The local publications may offer more specific information for you because they are localized.

   Many of these periodicals also publish annual directory issues containing names, addresses, phone numbers, and a list of merchandise sold by member firms.

   Look for these magazines at:
   a. A public library
   b. A nearby college library
   c. The resource center of any Vo-Tech institution
   d. A local advertising agency or newspaper advertising department

In case you have difficulty finding out which magazines, newsletters, technical journals, etc. are available, there are at least two sources you can go to for help. They are:

"Ulrich's Periodical Index"

"Standard Rates and Data"

Ulrich's gives a comprehensive list of all periodicals published for general circulation around the world. If you were thinking about opening a furniture store, you could go to this index, look up "furniture" and find the name of every magazine published in the world on that subject, listed by country. It would also tell you the name, address and phone number of the publisher.

Another valuable source is the "Standard Rates and Data." Its purpose is to provide advertisers and advertising agencies the information they need to place ads in the various media they choose. There are several volumes of the SRDs, each covering a specific medium of advertising. The two major categories cover the Consumer and Farm publications and the Industrial Publications. These are the two volumes in which you'll most likely find the magazines you need. The magazines are listed alphabetically and by subject.

Trade Shows. Trade shows are gatherings of companies who share a common industry. The shows themselves consist of booths displaying items manufactured and sold by the participating companies. Trade associations normally sponsor these events at least once per year, sometimes more frequently, and hold them in different parts of the country.

If you want to know when and where trade shows for your industry are held, you can contact the following places for information:

Local Chamber of Commerce

Trade Association for your industry

A supplier you deal with

A company in a similar line of business

Be sure to check on registration procedures. These vary from industry to industry as well as from show to show. In many cases, you can register at the door when you arrive. Sometimes, though, particularly when space is limited, you must preregister to guarantee you'll be able to get in.

Plan to spend at least one full day at the show and be prepared to take plenty of notes. If possible, try to attend the show with someone else involved in your business. This will give each of you more time to talk with people.

TECH TALK
TRADE SHOW
NEW INNOVA

The companies at these shows are there to sell their merchandise, so they'll be more than happy to answer your questions. Explain what type of business you are considering, pick up their literature, and ask about prices and services. If attendance at the show is heavy, you may be given a business card or a phone number to call after the show ends.

If you are planning to place an order at the show and have not done business with any of the companies previously, it may be necessary for you to have credit references with you. These might include a letter of reference from your bank, the names and addresses of suppliers you do business with already, or your checkbook and identification. These are normally necessary only when you want immediate delivery of the merchandise.

Other Business Associates. You may be able to learn a great deal about potential sources of supply from other business contacts. Your direct competitor down the street may not be willing to share information with you, but the dealer across town might be. You may have other information just as valuable to offer them. Similar businesses in other communities near yours are also a good possibility since you are even less likely to represent a competitive threat to them.

Registers. There are a number of registers available to help you find sources of supply. One such is the **Thomas Register.** This is one of the largest and most popular national registers available and is updated annually. The information is listed a number of different ways. One is by subject, listing companies according to the type of product they manufacture. Name, address, and phone number is given for each company in the listing.

Another section of this register is a company index which lists the names of each manufacturer alphabetically and the products they produce.

A third section breaks down merchandise by brand name. Knowing the brand, you can refer back to the company who produces it.

There are other registers available providing similar kinds of information. These include:

1. McRae's, which is similar to Thomas's but is on a smaller scale.

2. Connover Mast, a publisher's directory on a smaller scale than Thomas's.

3. Sweets, which deals exclusively with construction and other items relating to that industry. In addition to manufacturer information, building codes for the different states are also included.

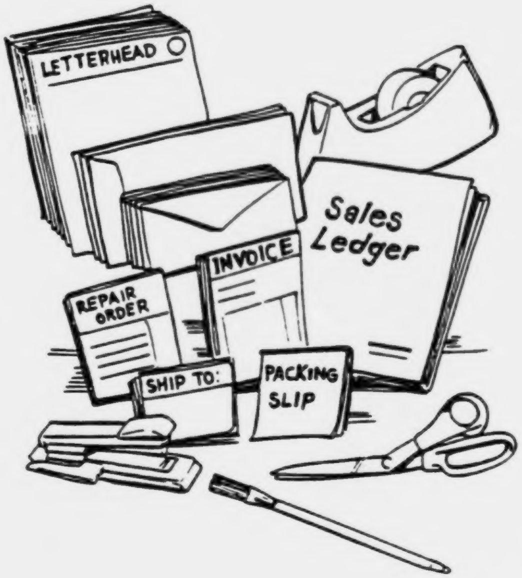
Other Sources of Information. Ask your friends or call your local banker. Teachers are also a valuable resource. Sometimes, you might also be able to find what you are looking for in the classified ads from your local newspaper.

BUSINESS SUPPLIES

When you are starting your own small business, it may seem as though you need a million things just to set up shop. Well, it isn't quite a million, but it could make up a long shopping list.

To begin with, here is a list of things you might need to get started:

1. **Business Stationery.** Every business should have letterhead stationery and envelopes with your name, the business name, address and phone number printed on it for every type of business correspondence. Any business supply store or commercial printer will handle the printing, and probably help you with the design or "layout" if you need. Price is usually reasonable.



2. **Speed Message Forms.** This type of form has an original and two or three carbons. Again, your name, the business name, address and phone number are printed on each slip.

3. **Telephone Message Pads.** This may seem like a very minor purchase to you, but it is one of the most important. A standard telephone message pad will have room for the name and business of who called, who the call was for, the date, time and action required. Every person in the office who has a phone should have a supply of message pads.

4. **Sales Slips and Register Forms.** These forms will be used for every transaction that takes place between your business and a customer. They give both you and the customer a receipt for the purchase. If the customer returns the item, you will be able to tell quickly when the item was sold and what the price was.

5. **Repair Service Order Forms.** If your business does repair or repair maintenance work, you will need these to write up the job. The form comes with an original and two carbons. On it you will write the customer's name and address, the work to be done, estimated cost and estimated time of completion. One copy is for your customers; the others should be kept on file for your records.

6. **Invoice Forms.** If your business will be issuing credit of any type, you will need to fill out an invoice at the time of the sale. This form has an original for the customer and carbons for your files. It will state your business name and address, the customer's name and address, the merchandise purchased and the balance due.

7. **Statement Forms.** If you are allowing customers to buy on credit, you will have to issue staements for the balance due. Your name and business name should be printed on the form. It's probably a good idea to have special billing envelopes printed up as well. Many businesses vary the color of their billing envelopes each month, with a different color specifying the age of the account balance.

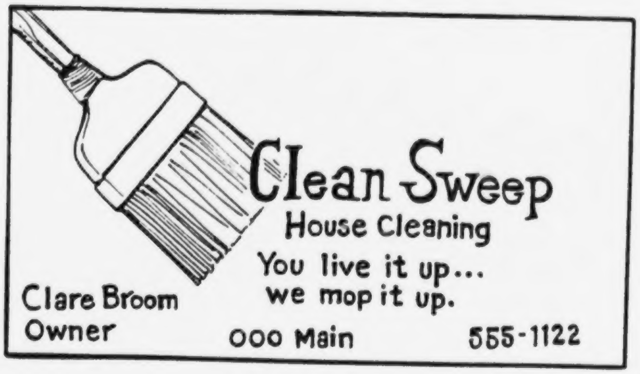
8. **Statement Ledger Book.** These are to keep a record of which customers owe you money and in what amounts. How to keep your ledger will be discussed in other sections.

9. **Collection Forms and Labels.** These are pre-printed forms and labels sent to delinquent accounts. If a customer has not made a full or partial payment, a collection form is usually sent out within 10 days. The form and label will have a message such as: "You may not realize your account is overdue. Please make your payment today." or "You did not make a full payment on your last bill. Please pay the balance as soon as possible."

10. **Labeling/Marking Tool.** These are necessary if you use price tags on your merchandise. Many types and styles are available, and it will be up to you to choose the one that suits your needs.

11. **Business Cards.** Business cards are one of the most important business supplies you will buy. They don't

have to be fancy. They may be printed on any type of paper and may include photographs. All that's needed is your name, title, business name, your address and telephone number. You should also purchase business cards for any employee who will be dealing with your customers or clients.



Clean Sweep
House Cleaning
You live it up...
we mop it up.
Clare Broom
Owner
000 Main
555-1122

Order a large quantity and leave them wherever you go, place them on bulletin boards, give them to customers, clients, and friends. Hopefully, they will keep your business card and call you at a later date.

12. **Address Labels.** You will need these if you do any type of shipping or send out catalogues. One set should have your business name and address; a second set should be blank so the customer's name can be typed in.

13. **Mailing Labels.** If your business ships merchandise, you will need labels or stamps, which say: "This Side Up," "Rush," "Fragile," "Handle With Care," "First Class," "Second Class," "Third Class," etc. You will be able to decide just what type of labels apply to your business.

14. **Bills of Lading and Packing List Forms.** If your business ships items out of town, by truck or a service such as UPS, you will need Bill of Lading forms. These tell the trucking company what you are shipping. Packing List Forms tell your customers what is included in the shipment.

15. **Point-Of-Purchase Materials.** This sounds more complicated than it is. Point-of-Purchase materials are any supplies you will need that relate to over-the-counter or display area sales. For example, you may need items such as:

a. Gift wrap of different varieties for birthdays, baby gifts, weddings, anniversaries and other special occasions.

b. Tissue paper to be used for wrapping breakable items and packaging more than one purchase.

c. Boxes of several sizes to hold whatever type of merchandise you sell.

d. Ribbons and bows for decorating the gift-wrapped items.

e. Paper bags or shopping bags for customers to carry their purchases in.

In addition, you may need miscellaneous business supplies, such as:

File folders
Staplers, staples, and staple remover
"In" and "Out" boxes
Scotch tape
Paper clips
Rubber bands
Scissors
Other cutting tools.
String
Pencils and pens
Rulers
Scratch paper
Correction fluid, typing ribbon, correction tape
Three-hole punch
Magnifying glass
Rubber cement
Thumb tacks
Dictionary
Pencil sharpener
Wastebasket
Ashtrays

Naturally, you will be the best judge of what types of supplies your business needs. The important thing is to order enough so that you don't often run out of any one item. It may take time for you to figure out what you need and in what amounts, so be patient.

WHERE TO FIND BUSINESS SUPPLIES

Business supplies are everywhere. The trick is to find the place that will offer you a combination of the best merchandise, the best delivery **and** the best price. Before you decide to buy anywhere, shop around and see what's available. You might tell store managers the amount of business you have to offer. In many cases, you will be offered a discount on large purchases. Here are a few places to look:

1. **Discount Stores.** Depending on what you need, a discount store often has excellent products and very low prices.

2. **Department Stores.** Generally speaking, department stores will be more expensive than other suppliers. However, these stores usually offer better service contracts and delivery. If you plan to buy office furniture, for example, you may want to wait for department store sales.

3. **Office Supply Mail Order House.** These can be a good choice for your business needs, particularly if they offer speedy delivery. There are usually several located in each major city, and they should be able to send out a catalogue of merchandise quickly.

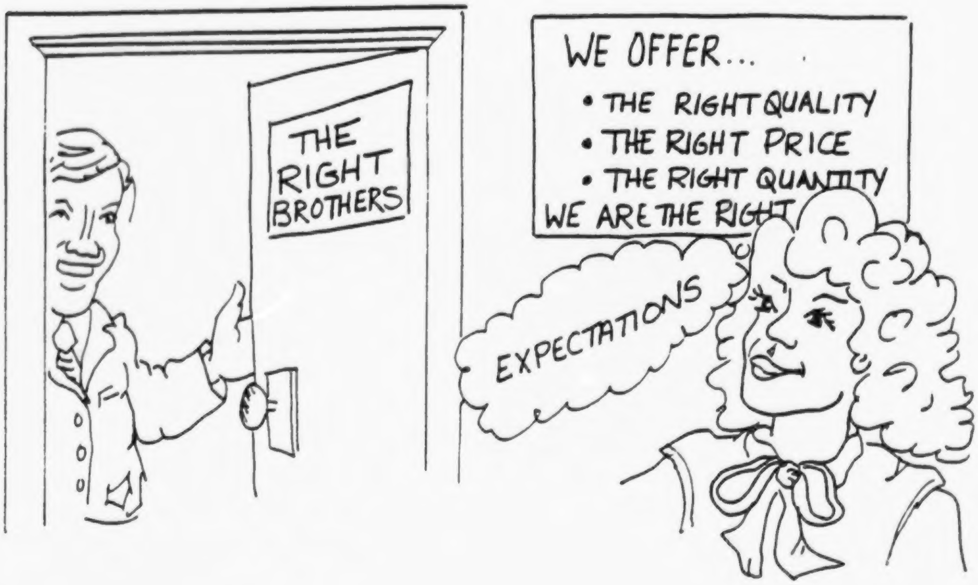
4. **Stationery and Office Supply Stores.** Again, these might be a bit more expensive than other establishments, but are worth checking on.

5. **Local Printers.** These people usually provide excellent work quickly, and their prices are generally competitive.

6. **A National Business Supply Store.** There are many such companies who publish extensive catalogues, specializing in the business supplies you need.

SCREENING POTENTIAL SUPPLIERS

Once you have found some possible candidates to supply you with the things you need, you may want to do a little checking before you actually place an order. This is not so important when ordering a few supplies for your office. But when you are trying to find a primary source for the goods you will be selling to the public, a little investigating ahead of time may save you major headaches down the road.


THE RIGHT BROTHERS
WE OFFER...
• THE RIGHT QUALITY
• THE RIGHT PRICE
• THE RIGHT QUANTITY
WE ARE THE RIGHT
EXPECTATIONS

In addition to the "RIGHTs" mentioned earlier, look into the following:

1. Assurance of Supply - Will the vendor you select be able to provide you with the things you order as promised?

2. How big or small is the Supplier? - Is he small enough to consider you important, but large enough to take care of you properly?

3. How many suppliers should I have? - This isn't always an easy question to answer. Having only one may get you preferred treatment when items are in short supply; but by the same token, you will have no alternate source of supply.

Quality

Quality is the most important consideration when you are making a buying decision for a manufacturing business. The reason is simple, really -- "If it won't do the job, it doesn't matter how little you paid."

The tradeoff for better quality isn't always price, though. This is where your homework can really pay off for you because you might be able to substitute for another product that will do the job for you, but for less money.

If you make products for sale, ask yourself what special requirements you have. Can the raw materials or dimensions be **standardized?** The more standard your requirements are, the more available the items are likely to be, and at a more reasonable price.

If it happens that you do need non-standard items, be sure you say so in your order. Vendors are likely to assume you want the standard stock line if not told otherwise, and getting replacements will cost time and money.

If you don't know what specifications and materials are standard, you can get information from a number of sources, including: The American National Standards Institute (ANSI), The National Bureau of Standards, Underwriter's Laboratories, The Federal Bureau of Specifications, the trade association for the industry you are in, or the vendors themselves.

Prices

Prices vendors offer are not cut in stone, no matter what they may tell you. After you're given a quote, think about it. Does it seem reasonable to you in the light of what you're asking for, or is it too high or too low. You'll need to research the industry a bit to learn what labor and raw materials cost, what normal profit margins run. Don't be afraid to ask what else is included in the price. Things such as shipping charges and advertising allowances may be included. So ask about them. They may be thrown in for free if your order is large enough. Many suppliers will inventory for you, so you don't have to buy far ahead. This is a cost that may already be built into the price quote, as well.

The important thing to remember is that a "bargain" may or may not be a bargain.

Discounts

Vendors may publish price lists showing the full prices of the various items in their lines and a series of discounts they offer. Or, you may have to ask for them. There are several discounts available to you, depending on your needs.

Trade. Trade discounts are offered to buyers who are willing to perform certain functions for the seller. The advertising, shipping, and inventory costs mentioned above are three examples of what you may be given discounts for. For example, if you will handle the shipping, you may get a percentage knocked off the stated price, assuming you can do it for less cost than the seller.

The way I figure it, with all my discounts, You owe ME money!

Quantity. This is a very common discount which gives you a better price for a larger order. Some vendors will allow you to accrue your orders (lump orders together over a given period of time, such as six months) to qualify for the better price. Others will discount their price order by order. Some will give you the price break on the invoice, while others will send you a check for a volume rebate.

Seasonal. Seasonal discounts are offered in the off-season, such as markdowns on winter jackets n February and March.

Cash. Cash discounts are normally given for prompt payment of bills. This does not necesssarily mean cash-with-order or COD terms. There are many companies who will allow cash discounts for payments made within 10 to 30 days after invoice.

Competitive Bids

A second method of getting prices from potential suppliers is through competitive bids. This is the process most governmental bodies use in getting prices for the goods or services they require. As with price lists, be sure what is, and what is not, included in the price.

This method and negotiation, discussed below, are better for getting prices on more expensive items or large purchases, with a value of, say, $1,000 or more.

Negotiation

Negotiation is a third way of establishing price for the item or items you need to buy for your business. Some people tend to look at negotiation as merely price haggling, but price is only one factor. While price may be the most crucial issue to you, it may be to your benefit to use others as "bargaining chips." You may press hard for a better delivery schedule you don't really need, and "back off" on this in order to secure a better price.

Negotiations with a potential supplier are quite similar to labor negotiations. You can use many of the same techniques. For example:

1. In the first part of your discussion, try to figure out just what the other person REALLY needs and press hardest on those items to get what YOU really need.

2. Let the other person state his/her position first. It may be a pleasant surprise.

3. Hold discussions in your office or some other place of your choosing. Familiar surroundings really help you feel more comfortable.

4. Keep pressing the supplier to justify his position -- "Why does the price have to be that?", etc.

5. Listen to what the other person is saying. And just as important, listen to what they are NOT saying.

6. Remember that you are trying to create a long-term relationship with this person. If he or she feels that you're taking unfair advantage, the relationship will suffer.

7. Never agree to anything you're not asked to. In other words, don't give it away.

The objective of negotiation is to reach an agreement both parties can live with and be happy with.

QUALITY CONTROL

Quality control is not always a problem, but when it is, it can be anything from a minor annoyance to a business-threatening crisis. One way to avoid these kinds of problems is to check out the vendors you are seriously considering before placing a large order. Ask them for references of several customers, both current and former, and call them. Ask other businessmen you may know in your industry. Ask for bank references; check them. Go to the Better Business Bureau and Chamber of Commerce in the community where they are located. If you're reasonably close to your supplier's offices or plant, ask to be given a tour and be introduced to other employees. It may be unimportant to the supplier, but it may be everything to you. If you will be spending a lot of your hard-earned money with them, don't leave quality control to chance.

Even with all these precautions, quality control problems can still occur. The best way to catch them before they get out of hand is to inspect shipments when they arrive at your place of business. If it's just a few pieces of high priced items, check each one. If it's a large shipment containing thousands of pieces, sample them. When you find a problem, notify your vendors right away. They will be just as concerned as you in making sure the problem gets taken care of. After all, their business depends on it, too. Be sure you know what policies the vendor has regarding defective goods and returns, BEFORE you place your order, so that any problems get resolved to your satisfaction.

TIMING

When to reorder merchandise is not a cut-and-dried issue. Your decision on timing can be based solely on internal factors, that is, your business needs. You may, for example, decide to keep a minimum of 7 days' inventory on hand, and reorder whenever stock levels reach that point, no matter what else may happen.

Or, you may want to consider external factors, such as anticipated price changes, along with the internal. If you think prices will rise in the next month, you may buy more than you otherwise would to take advantage of the lower prices currently available. If prices are going to go down, in your belief, you may underbuy and wait for the drop to take place.

Most small businessmen are not in the business of making a profit on price fluctuations. They would just as soon have a stable price they can count on.

If your business or industry may be subject to changing prices, you may want to look for a "hedge." The form your hedge may take will vary depending on the business you're in. But ask vendors what they recommend, or other people in the same or similar lines of business as yours.

INCOMING MERCHANDISE & INVENTORY CONTROL

One of the biggest losses your business may have is paying for a full shipment of merchandise when the whole shipment is not delivered.

Therefore, it's very important to open all shipments on receipt, count the items and compare what you received to what you ordered. Don't sign any receipts until the shipment matches with your own records.

This sounds like it might require a lot of time. It will. But the savings might astound you. If you can't spare the time yourself, place a trusted employee in charge of this job.

Along with this, you should also have an inventory control program. That is, how you decide when to re-order certain items. The following is an example of one way to maintain control over inventory.

Set up a separate page in a looseleaf book for each item you inventory.

1. On the top of the page, list the item, the name of the supplier, the address, phone number, and the name and phone number of their representative who deals directly with you.

2. List the code number assigned to the firm.

3. List the stock number of the item.

4. Include the size of the initial order going into inventory.

5. Record the count of what's currently on hand.

With this, you'll have to decide how much of each item to keep in stock for your business. In Chapter 13, you'll find additional data on inventory control.

PRICING

Pricing is a very sensitive question in running a profitable business. Prices certainly must be high enough to cover your costs and generate profits for you. But setting them too high will drive your customers to your competition in search of a better buy.

There are several things to consider before setting a price on an item of merchandise or service.

1. Actual cost of that product or service. This will include the price you paid for the item plus any delivery costs you had.

2. Your other expenses, including, rent, utilities, advertising or promotion, labor, supplies, etc.

3. How much profit you must make for yourself.

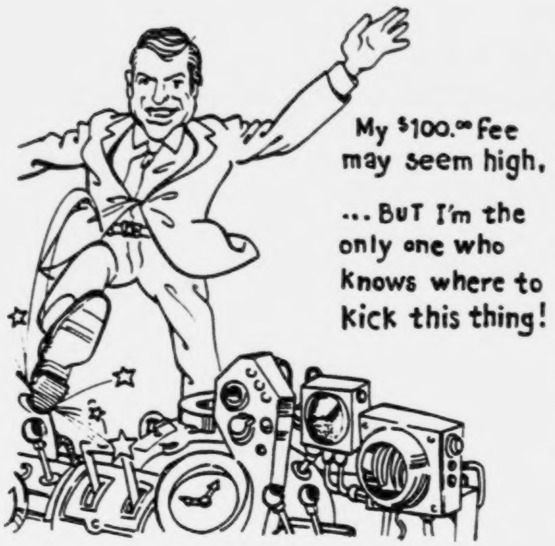
4. How much the competition is charging.

Frequently, when you buy a finished product for resale, the manufacturer will give you a suggested retail price. When this is the case, you'll need to decide if it will give you the margin you need. Knowledge of the business, what your competition is doing, and common sense will all help you.

In many industries, there are established pricing guidelines. For example, if you deal in giftware, the suggested list price is determined by "keystoning," or doubling the cost of the item. If you bought a music box for $35, you would sell it for $70. Other items, such as gold or jewelry, are "double keystoned." An item purchased for $50 would retail for $150. These are only rules of thumb; you must always be aware of what your competition is doing.

When you price a product, that is, establish the selling price, the difference between what you pay to buy an item and its selling price is the "MARKUP." If you must later reduce the selling price in order to sell the item, the reduction is called "MARKDOWN."

Markups and markdowns are frequently expressed as a percent. Depending on whom you talk to, the percent may be based on either the product's cost or its retail price. This can create confusion until you and the people you deal with mean the same thing. An example of this would be an item you buy for $50 and mark up to $100. If you use cost as the base, your markup is 100%. If you use retail as the base, your markup is 50%. Same cost, same retail, just a different way of looking at the figures. When you discuss retail prices with your vendors and aren't sure what they mean, a question here might save you hundreds or even thousands of dollars.


My $100.00 Fee may seem high,
... BUT I'm the only one who Knows where to Kick this thing!

Setting a price is different for a service, than for a product. It's more subjective because the value of the service your business performs may not bear any relationship to the out-of-pocket costs you pay. For example, a bookkeeping service may pay out only $50 or $75 in expenses to maintain a set of books for a client but charge that client $300 to $400 for the service. And the client may feel it's a bargain. Service-oriented businesses are very labor intensive, that is, the great majority of cost is in labor.

The other factor to be considered when setting prices for a service is the competition. Ask yourself what services are they actually providing for the fees they charge. How long should it take them (or you) to perform the services and what skill level would be required. From our bookkeeping service example, how many hours would the work require, and could a clerk do the work or an experienced accountant?

When figuring your labor costs, don't forget to include payroll taxes you'll be responsible for, plus any benefits you'll offer your employees. Benefits might include vacation and sick pay, discounts on purchases, insurance coverage, or maybe a pension plan. You may choose to offer a very limited benefits program or an extensive one. But there will be some cost associated with whatever you do offer.

MERCHANDISING POLICY

Buying for your retail business has to start with a merchandising policy. It's not as important what your policy is as sticking to it. Otherwise, customers will become confused and likely stop shopping in your store. And as a small retailer, you know repeat business is the lifeblood of a successful business.

As you get ready to open your store, consider how you want to merchandise it before actually placing any orders.

1. What price range do you want to sell in? Will your merchandise be high, medium or low priced? It is very difficult and expensive for small shops to offer too wide a selection of price.
2. Closely related to price is quality. Are you going to sell top quality goods? The same merchandise made with better materials will be higher quality, and higher price.
3. How big an assortment of merchandise will you offer to your customers? Will there be lots of different colors, sizes, and styles to choose from or few?

Although you may want to be all things to all people, your business will have much greater chances for success by offering more limited selections and catering to a more select group of customers. You'll save money through a smaller inventory, and be able to offer better service to the people who do buy from you. As you grow, you can consider expanding your lines.

HOW TO SET UP YOUR OWN SMALL BUSINESS

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CONTENTS

HOW TO SET UP YOUR OWN SMALL BUSINESS

VOLUME I

Preface by Max Fallek i

Introduction ii

My Own Small Business - Getting off to a good start 1-1

Market Research - Ask the right questions 2-1

Sales Forecasting - A look into the future 3-1

Site Selection - Where to locate your busines 4-1

Financing - Financing your small business 5-1

Legal Needs - The law and you 6-1

Needs for a Small Business - Getting organized 7-1

Advertising - Spreading the word 8-1

Publicity and Public Relations - Making news for your business 9-1

Purchasing — The right supplies from the right suppliers 10-1

VOLUME II

Bookkeeping - The fundamentals of bookkeeping 11-1

Accounting - Accounting for success 12-1

Business Policies - Minding the store 13-1

Selling - Ring up sales through salesmanship 14-1

Insurance - Insuring the future 15-1

Self Improvement - Take inventory of yourself 16-1

Personnel Management 17-1

Business Plan - Developing your plan 18-1

Pitfalls and Helpful Hints 19-1

Wrap-Up - On the road to success! 20-1

CHAPTER 11

The fundamentals of bookkeeping

More mental than fun

Depending on whom you ask, the subject of accounting is likely to produce one of three responses: **Great!** or **Huh?** or **Yuk!**

Too many entrepreneurs are less than enthusiastic about accounting, and that's unfortunate. They view it as a necessary evil - to satisfy tax reporting requirements. And we all have varying views of taxes, don't we - most of them unfavorable!

Accounting is nothing more than a process of organizing and recording financial activities in a **disciplined** manner. "Disciplined" is emphasized to stress the need for a thoughtful, deliberate approach.

Back to attitudes about accounting. Why do so many view it negatively? In most cases, it's probably because they haven't recognized the full value of knowing where they are and where they've been (financially). You see, good accounting is a little like good navigation of ships and airplanes - financial "fixes" are just as important to the entrepreneur as good navigational "fixes" are to the ship captain or the aircraft commander. If you know where you've been, and where you are now, you have a much better chance of arriving at your chosen destination. This chapter will focus on ideas which can help you establish financial "fixes" as you "navigate" to economic security.

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Many bookkeeping and accounting courses offered in high schools and colleges emphasize the technical aspects while appearing to ignore the practical side. To overcome this problem, we will concentrate on converting the technical to the practical.

In this chapter we will discuss various types of revenues, expenses, assets, liabilities, and equity. Then these categories will be organized into a meaningful form to see how to get a true picture of a company's operations and its financial health.

When we're finished, while you may not be qualified to hang out your public accountant's shingle, you **will** have a reasonable understanding of the fundamentals of accounting, and an appreciation of their value.

Specifically, you will be able to:

1. Understand basic accounting terms and procedures and why they're so important;
2. Organize your financial activities into an understandable form;
3. Calculate the value of your business; and
4. Determine whether or not you're making money.

Chapter 12 will build upon the basics developed here and probe more complex subjects, focusing on depreciation, tax requirements and handling of payrolls.

So much for the preamble - let's get to the meat of accounting fundamentals! We'll start off with some of the more obvious items so we can build a foundation.

First of all, why even start a business? Usually, it's: a) to make money (increase wealth); b) to satisfy an ego drive; or c) some combination of the two. Please understand; there is nothing wrong with giving in to a healthy ego - it's what makes us all tick deep down inside. At the same time, unless a person is blessed with an unending supply of funds, chances are that he or she will want to make a reasonable profit from the venture at the same time as feeding the ego.

What happens all too frequently is that some business people (perhaps you've known one or two) overlook the **little** details of keeping good business records in their enthusiasm to satisfy the ego. In fact, they might have made a better income if they had merely put their funds in a passbook savings account! Others may be operating at a loss and don't even know it, much less know what to do about correcting the situation.

The function of accounting could be defined as the creation and organization of records about a business's financial activities and transactions. We can subdivide this rather broad definition into four components:

1. **Documenting** - The individual documents pertaining to each activity, sometimes called Source Documents.
2. **Recording** - Listing each activity (transaction) in an orderly manner (usually chronologically) on individual pages or in books commonly called journals.
3. **Organizing** - Placing these transactions into workable categories in order to provide meaningful summaries, usually in a book called a ledger.
4. **Development of reports** which provide the overall pictures of a company's financial activities and health.

The owner/manager needs reliable information about the company's financial activities in order to guide its growth and development. While a shoebox full of receipts and bills may be considered to be reliable **data,** it certainly will not qualify as **information** for the effective management of the firm.

Another definition is necessary - something called the Accounting Equation: Assets = Liabilities + Owner's Equity - or:

$$A = L + OE$$

Assets (the value of the things owned by the company) equal Liabilities (the amounts owed to others) plus Owner's Equity (the net value or worth of the company). From this it becomes obvious that if we know two of the values, we can solve for the third. For example, given Assets and Liabilities, we can compute Owner's Equity merely by turning the equation around to:

$$OE = A - L$$

Assets, Liabilities, and Owner's Equity are commonly combined into a report called a Balance Sheet which reflects the financial position of the company at a given point in time.

Another equation deals with day-to-day activities and has no specific name: Revenues (the monies we've collected or are scheduled to collect) = Expenses (the amounts we've paid or are obligated to pay) + Net Income (whatever is left over). It, too, can be turned around to:

$$NI = R - E$$

These three components are usually combined into a report called the Operating Statement and reflect the profitability of a company during the period for which the report was prepared.

These two reports - Balance Sheet and Operating Statement - are intimately tied together because at the end of each accounting period (a month, quarter, year - whatever is desired) the Net Income is added to Owner's Equity. It becomes obvious, then, that Owner's Equity goes up and down with the fortunes of Net Income!

Now that we have established some basic definitions, let's look at the situation facing Ed Entrepreneur.

Ed has been a machinist for most of his life and takes a great deal of pride in his work. The pay is satisfactory, and the company for which he works has been good to him over the years.

At the same time, he is a tinkerer - the kind of individual who has a good imagination and who enjoys putting ideas to work. He has developed some miscellaneous devices for use around the home which have been quite useful and, most recently, may have discovered the pot at the end of the rainbow! It seems that Ed has invented a new household gadget (he calls it a "Widget") which performs just about any function desired by the householder. Further, Ed has discovered a special technique which makes it easy and simple to shape and assemble the Widget, cutting manufacturing time to about 15 minutes.

When Ken, his neighbor, saw and tried the Widget, he asked Ed to make one for him, insisting on paying $5 for it since it was so useful. Ed didn't mind doing it for a couple of reasons. First, he enjoyed the work. Second, Ken was a highly respected doctor and Ed enjoyed the compliment. Third, he had the necessary materials in his scrap drawer. And, fourth, he could always find some good use for the $5! It wasn't until a couple of weeks later that Ed discovered his new device should have been called the "Tiger" (as in 'by the tail').

At a neighborhood barbeque, Ken told Ed that he had shown the Widget to some of his medical friends who instantly saw great value in it not only as a household device but also as a medical instrument if he could make it out of stainless steel. And, to top it off, the other doctors would be willing to pay $100 for one of stainless steel because it was extremely useful and they had never before seen anything like it for any price! Could he deliver 20 in the next two weeks?

That evening, Ed started doing some serious thinking. The cost of stainless steel would be several dollars compared to a dollar or so for the cold rolled steel he had been using. Machining would be more time consuming; so it might take a half-hour to make this new verson.

The biggest problem was that his lathe was old and rather worn. It was good enough to do his home jobs, but when it came to handling stainless steel, it wouldn't be able to provide the precision he needed. The machine shop had the equipment, but Ed didn't want the boss to know he was moonlighting because others had gotten into trouble before.

Then he remembered that his brother-in-law George had a first class shop in the garage. While George wasn't much of a machinist, he had been smart enough to buy top-of-the-line equipment.

He called George, explained the situation, and asked if he could use the shop.

"Sure," said George, "for $50 per hour."

Ed thought briefly about George's ancestry, and said he would call him back.

Giving himself time to cool off, Ed did some more figuring. First, he knew how to do the work and do it well. Second, he could probably make two Widgets per hour; so the cost of George's equipment would be only $25 per unit. Third, if he were going to collect $100 per Widget, he could still make about $65 per unit after subtracting another $10 for the costs of the materials. Fourth, in spite of George's outrageous charge, Ed was still excited about the possibilities.

He called Ken to see if his doctor friends were really serious.

"Absolutely," said Ken.

Ed took a deep breath and told Ken he would do it.

Then Ed called George, agreed to the $50 hourly charge, and set up a schedule to use the equipment.

On Friday he took a day's vacation and went to several suppliers, buying raw materials, rivets, nuts and bolts, along with the special cutters he would need for the lathe and bits for the drill press. Altogether, he spent nearly $350, musing that it was a mere pittance compared to the $2,000 he would make in this venture. Over the weekend he completed 15 of the stainless steel Widgets (SSW). He could have done all of them, but decided to put some extra care into them since Ken's reputation was also at stake. By the end of the next week, he had finished the lot and called Ken. When Ken arrived and looked at the finished SSW's, he was genuinely excited. Since he was meeting with his doctor friends on Monday, he said he would take them along and deliver them.

On Tuesday Ken called Ed and said his associates were really pleased with the SSW's and would promptly send their checks as soon as Ed sent invoices for their records.

Ed had an old beater of a typewriter at home, so he bought some packaged forms at the local stationery store and laboriously pecked out the 20 invoices. When he was done, he mused to himself that it seemed to take nearly as long to prepare the invoices as it had to manufacture the SSW's.

By the end of the month, he had received checks from 12 of the doctors and deposited them in the bank, feeling rather smug. The $1,200 would help him make the down payment on the new Olds 98 he wanted, and the $800 coming later would pay for his summer vacation.

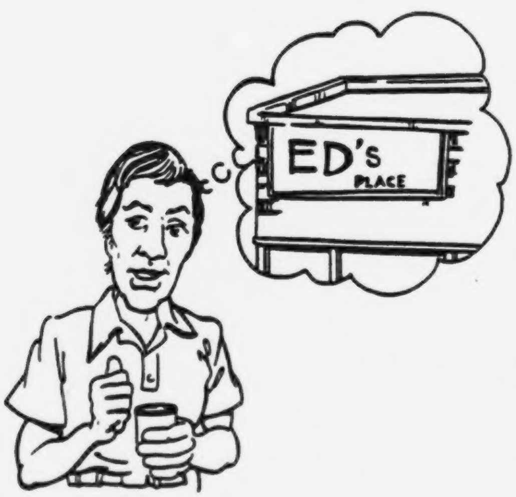
Then, he remembered George - and winced as he gave him a check for $750 for the 15 hours spent using George's shop.

Now he was faced with another problem. His phone was ringing every evening when he arrived home from work - other doctors had learned about SSW's and wanted to order them. Before he knew it, he had agreed to make another 35 units.

He called George again and arranged a new schedule.

Over the next couple of weeks (or weekends), Ed worked diligently on SSW's - producing and delivering all 35 finished units. There was a little more scrap than he had expected, and it took a little longer for each one than he had planned. Still, Ed thought to himself that he was making money - in fact, more than he had ever made!

He began to resurrect an old dream of having his own machine shop where he could turn out first-class goods at a fair profit instead of the rinkey-dink activities he did at his



current job. The only problem was his concern over continuing to make a reasonable living - he realized there were a lot of things he didn't know about running a business.

At the next neighborhood barbeque, he found himself chatting with Alice Accountant and he discussed his dilemma with her. She asked him some rather serious questions, such as how much did a finished SSW really cost and how many could he produce in a given time, and was he really making a profit.

Ed commented that things seemed to be going quite well but admitted that he didn't really have the precise answers. He asked Alice if she could help him over the weekend, offering to pay her $25 per hour to get the financial records straightened out.

By Saturday, Ed had found all the sales slips from his purchases, along with the duplicates of the invoices sent to the doctors. He and Alice began organizing things.

"The first thing to remember," Alice emphasized, "is to keep all of your original sales slips and invoices, the source documents. From them we organize and record the financial activities in a logical manner. Let's begin with purchases - we will create a Purchases Journal."

She took the sales slips from the first purchases, broke the items into categories, and posted them to the journal using Ed's check numbers as a reference. Then she added the cost of renting George's equipment as another item. When she was done, it looked like this:

PURCHASES JOURNAL

Date	Purchased From	Description	Ref.	Mat'ls	Tools	Rental
5/10	Jones Steel Co.	Steel	3012	250.00		
5/10	Jones Steel Co.	Bolts, rivets	3012	50.00		
5/10	Smith Mach Tool	Cutters, bits	3013		50.00	
5/30	George	Shop Rental	3025			750.00
5/31	Month Totals			300.00	50.00	750.00

Then she took the duplicate invoices from the first order and, assigning a number to each as a reference, posted them - this time to another sheet she called a Sales Journal:

SALES JOURNAL

Date	Sold To	Description	Ref	Dr. Amt.	Cr. Amt
5/20	Doctor #1	Widget	101		100.00
5/20	Doctor #2	Widget	102		100.00
5/20	Doctor #3	Widget	103		100.00
5/20	Doctor #20	Widget	120		100.00
5/31	Month Total				2,000.00

Alice stressed that each transaction should be posted separately to minimize the chance of missing something. She also urged that the items be posted chronologically, in date order.

Then, since Ed was selling Widgets on credit, she set up a journal to reflect the amounts owed to him by others, and also to record the payments received from these same people. She placed the ones for which Ed had been paid in a **closed** file and the remainder in an **open invoices** file.

ACCOUNTS RECEIVABLE JOURNAL

Date	In Account With	Description	Ref	Dr. Amt.	Cr. Amt.
5/20	Doctor #1	Sale on Acct	101	100.00	
5/20	Doctor #2	Sale on Acct	102	100.00	
5/20	Doctor #3	Sale on Acct	103	100.00	
5/20	Doctor #20	Sale on Acct	120	100.00	
5/22	Doctor #1	Recd on Acct	101		100.00
5/24	Doctor #2	Recd on Acct	102		100.00
5/24	Doctor #3	Recd on Acct	103		100.00
5/31	Doctor #12	Recd on Acct	112		100.00
5/31	Month Totals			2,000.00	1,200.00

Another journal was set up to record the cash transactions.

CASH JOURNAL

Date	Name	Description	Ref.	Dr. Amt.	Cr. Amt.
5/10	Jones Steel	Materials	3012		300.00
5/10	Smith Mach Tool	Tools	3013		50.00
5/22	Doctor #1	Recd on Acct	101	100.00	
5/24	Doctor #2	Recd on Acct	102	100.00	
5/24	Doctor #3	Recd on Acct	103	100.00	
5/29	Doctor #11	Recd on Acct	111	100.00	
5/30	George	Shop Rent	3025		750.00
5/31	Doctor #12	Recd on Acct	112	100.00	
5/31	Month Totals			1,200.00	1,100.00

As she went along with the various journals, Alice explained that each item was of significant importance if Ed wanted to know how his business was really doing. She stressed that credits of $100 in one journal required complementing total debits of $100 in another journal (or journals) - she called it **double entry bookkeeping.**

Alice pointed out that as Ed recorded a sale (she called it a **Credit**) in the Sales Journal, he either was or was not paid for it at the time the sale was made. If he received payment on the spot, it would be directly recorded (as a **Debit**) in the Cash Journal; if not, then it must be recorded as a debit in the Accounts Receivable Journal.

Similarly, as Ed purchased materials, they must be recorded as Debits in the Purchases Journal and as Credits in the Cash Journal (if he paid for them at the time of purchase), otherwise, in an Accounts Payable Journal. In this way, Ed would always know the balance of outstanding accounts as well as his cash position.

"Great Scott!" Ed exclaimed. "I didn't know that you had to do all these things just to run a small operation like mine. Is it all really necessary?"

Alice smiled. "Well," she replied, "I've already taken a few shortcuts in order to keep things as simple as possible. For example, if you had lots of cash transactions, such as a retail store, we would set up separate journals for cash receipts and cash disbursements. I just didn't feel that was necessary at this time.

"However," she went on, "your purchases tend to fall into different categories; so I decided to spread them out to allow you to see more accurately just how you're spending your money.

"Now that we've summarized your activities for May, we need to prepare a couple of reports which will really put things in perspective. First, though, we'll do a worksheet which will help us."

ED ENTREPRENEUR - TRIAL BALANCE WORKSHEET ENDING MAY 31

	Opening		Adjustments		Closing	
Account Title	Debit	Credit	Debit	Credit	Debit	Credit
Sales				2,000.00		
Materials			300.00			
Tools			50.00			
Shop Rent			750.00			
Net Income			1100.00	2,000.00		
Cash	0.00		1,200.00	1,100.00	100.00	
Accts Rec	0.00		2,000.00	1,200.00	800.00	
Accts Pay		0.00	0.00	0.00		0.00
Owner's Equity		0.00	1,100.00	2,000.00		900.00
Totals	0.00	0.00	4,300.00	4,300.00	900.00	900.00

"Here, too," Alice explained, "I've taken a few shortcuts. If your activities were more complicated, I would have to enter more detail - but the result would be the same.

"The idea here is to transcribe the activity from each journal and, when we balance, we can be pretty sure that we've covered all the details. You will note that once we determined the Net Income, we then posted it to the Owner's Equity account - that's the one which tells you how much your business is worth at the end of each accounting period."

"You mean my business is already worth something?" asked Ed.

"Sure, by an amount equal to the Net Income. If you had opened a separate checking account at the very beginning and put the same $350 into it that you used to buy the materials and tools, the Balance Sheet would have been a little different. You merely would have posted a $350 debit to Cash and a corresponding credit of $350 to Owner's Equity; and the value of your business would now be $1,250. Our situation here is the same as if you had then taken the $350 back out of the business account and returned it to your personal account. Now, let's prepare the Operating Statement."

ED ENTREPRENEUR - OPERATING STATEMENT FOR MAY

REVENUES:		
Sales of 20 Widgets	$ 2,000.00	
	==========	
		$ 2,000.00

EXPENSES:		
Raw Materials	300.00	
Tools	50.00	
Shop Rental	750.00	
	==========	
Total Expenses		1,100.00
		==========
NET INCOME		$ 900.00
		==========

"Let's see," said Ed rather thoughtfully, "if I sold 20 Widgets for a $900 profit, that's $45 per Widget. Not too bad!"

"Looks pretty good," responded Alice. "Just how much time did it take you to earn the $900?"

"Well, I spent more time than I had expected - about 15 hours, I guess."

"Yes," she acknowledged, "but how about the time you spent getting the materials and preparing the invoices?"

"Ha! Forgot about that. There's probably another 15 hours tied up there, too. Still, $900 for 30 hours isn't bad, is it?"

"Not at all," she agreed. "Let's finish up the first month by preparing one more report - something we call a Balance Sheet. It will give you a bird's eye view of where you stand as of the close of each monthly period. Once again, all we have to do to prepare this report is to pick the numbers right off the worksheet."

ED ENTREPRENEUR - BALANCE SHEET AS OF MAY 31

ASSETS		LIABILITIES	
Cash in Bank	100.00	Accts Payable	0.00
Accts Receivable	800.00		======
		TOTAL LIABILITIES	0.00
		OWNER'S EQUITY	
		Capital Paid In	0.00
		May Earnings	900.00
			======
		TOTAL EQUITY	900.00
	======		======
TOTAL ASSETS	900.00	TOTAL LIABILITIES & OWNER'S EQUITY	900.00

"Well," said George, "I can see one thing for sure - my Cash is low and my Receivables are high! In fact, most of my value is sitting in someone else's pocket. I'll call Ken and see if he can push on his doctor friends a little."

"Before we do that," advised Alice, "let's go to work on June's activities." She glanced at the source documents. "You go ahead and post these transactions as I watch over your shoulder."

Ed took the first one, the sales slip for the materials to make the second group of Widgets, and began to post the details, following that with the postings of cash received and the 35 new sales he had made, along with the Widget returned by Doctor #18. Oh, yes, and $1,000 of the $1,200 he owed to George for the month's use of the machine shop.

PURCHASES JOURNAL

Date	Purchased From	Description	Ref.	Mat'ls	Tools	Rental
5/31	Month Totals			300.00	50.00	750.00
6/3	Jones Steel	Steel	3033	500.00		
6/3	Jones Steel	Bolts/Rivets	3033	100.00		
6/30	George	Shop Rental	3057			1,200.00
6/30	Month Totals			600.00		1,200.00

CASH JOURNAL

Date	Name	Description	Ref.	Dr. Amt.	Cr. Amt.	
5/31	Month Totals			1,200.00	1,100.00	
6/3	Jones Steel	Materials	3033		600.00	
6/4	Doctor #13	Recd on Acct	113	100.00		
6/5	Doctor #15	Recd on Acct	115	100.00		
6/7	Doctor #16	Recd on Acct	116	100.00		
6/8	Doctor #17	Recd on Acct	117	100.00		
6/28	Doctor #44	Recd on Acct	144	100.00		
6/28	Doctor #48	Recd on Acct	148	100.00		
6/30	George	Shop Rent	3057		1,000.00	
6/30	Doctor #53	Recd on Acct	153	100.00		
6/30	Month Totals			2,000.00	1,600.00	

SALES JOURNAL

Date	Sold To	Description	Ref.	Dr. Amt.	Cr. Amt.	
5/31	Month Total			0.00	2,000.00	
6/17	Doctor #21	Widget	121		100.00	
6/17	Doctor #22	Widget	122		100.00	
6/17	Doctor #23	Widget	123		100.00	
6/26	Doctor #55	Widget	155		100.00	
6/27	Doctor #18	Return	118	100.00		
6/30	Month Total			100.00	3,500.00	

ACCOUNTS RECEIVABLE JOURNAL

Date	Account With	Description	Ref.	Dr. Amt.	Cr. Amt.	
5/31	Month Totals			2,000.00	1,200.00	
6/3	Doctor #13	Recd on Acct	113		100.00	
6/4	Doctor #15	Recd on Acct	115		100.00	
6/5	Doctor #16	Recd on Acct	116		100.00	
6/7	Doctor #17	Recd on Acct	117		100.00	
6/17	Doctor #21	Sale on Acct	121	100.00		
6/17	Doctor #22	Sale on Acct	122	100.00		
6/17	Doctor #23	Sale on Acct	123	100.00		
6/26	Doctor #55	Sale on Acct	155	100.00		
6/27	Doctor #18	Return	118		100.00	
6/28	Doctor #44	Recd on Acct	144		100.00	
6/28	Doctor #48	Recd on Acct	148		100.00	
6/30	Doctor #53	Recd on Acct	153		100.00	
6/30	Month Totals			3,500.00	2,100.00	

Oh yes, Ed had to set up a new journal, Accounts Payable, to handle the amount which he still owed George for the June shop rent.

ACCOUNTS PAYABLE JOURNAL

Date	Account With	Description	Ref.	Dr. Amt.	Cr. Amt.	
6/30	George	Bal of Rent	3057		200.00	
6/30	Month Total				200.00	

It took them the better part of another hour to pull all of June's figures together and get them properly posted.

"Whew," Ed sighed, "isn't there an easier way to do all this?"

"Sure," laughed Alice, "hire someone else to do it! The point remains, however, that it does need to be done."

"But aren't there more shortcuts I could take? How about that Accounts Receivable Journal - of the 35 sales I recorded, I received payment for 16 of them during the month. Do I really have to go through all that effort?"

"If you're especially careful, you can probably put all of June's invoices in a separate file and pull them out as you receive the checks. Those which remain in the file at the end of the month will still have to be posted to Receivables if you're going to keep track of things."

"Oh, by the way," Ed suddenly remembered, "what happens if I don't use all the raw materials I bought? I'm getting better as I do each Widget, and I've got about $120 in unused materials left over."

"Then we'd better set up another journal - we'll call it Inventory.

"We'll handle this one a little differently because we have to 'back' into the figure we need for the Operating Statement. At the same time, we will include the approximate value of the Widget returned by Doctor #18 because at the end of the month it's unsold. Let's assume its worth is $50."

INVENTORY

Date	Description	Begin	+Purch	-End	=Used
6/3	Stainless Steel	0.00	500.00	100.00	400.00
6/3	Bolts, Rivets	0.00	100.00	20.00	80.00
6/27	Widget (finished)	0.00	0.00	50.00	-50.00
6/30	Cost of Goods	0.00	600.00	170.00	430.00

"You see," Alice commented after preparing the journal, "what we need is the Cost of the Goods which you sold during the month. We determine that figure by taking the balance of the Inventory at the beginning of the month - in this case zero - adding to it the amounts you purchased during the month, and then subtracting the value which remains at the end of the month.

"Now, let's do the worksheet for June. Note that we ignore the Opening and Closing columns when we transcribe the Revenues and Expenses. But, for the Balance Sheet accounts, we first transcribe the Closing figures from the previous month into the Opening column. This way, we assure ourselves of staying in balance. Remember, Net Income is the remainder after we subtract Total Expenses from Total Revenues."

ED ENTREPRENEUR - TRIAL BALANCE WORKSHEET ENDING JUNE 30

	Opening		Adjustments		Closing	
Account Title	Debit	Credit	Debit	Credit	Debit	Credit
Sales			100.00	3,500.00		
Cost-Goods Sld			430.00			
Tools			0.00			
Shop Rent			1,200.00			
Net Income			1,730.00	3,500.00		
Cash	100.00		2,000.00	1,600.00	500.00	
Accts Rec.	800.00		3,500.00	2,100.00	2,200.00	
Inventory	0.00		600.00	430.00	170.00	
Accts Pay.		0.00	0.00	200.00		200.00
Owner's Equity		900.00	1,730.00	3,500.00		2,670.00
Totals	900.00	900.00	7,830.00	7,830.00	2,870.00	2,870.00

"Oh, I see!" exclaimed Ed. "We use the worksheet to verify the month's transactions. We took the $100 Cash from last month's closing, added the $2,000 received this month, then sutracted the $1,600 paid this month, to arrive at a closing Cash balance of $500."

"Good! I think you've got the idea! Now, let's prepare the month's Operating Statement and Balance Sheet."

ED ENTREPRENEUR - OPERATING STATEMENT FOR JUNE

REVENUES:		
Sales of 35 Widgets	3,500.00	
Less: Return of 1 Widget	- 100.00	
	========	
Net Sales		3,400.00
		========
EXPENSES:		
Cost of Goods Sold	430.00	
Tools	0.00	
Shop Rental	1,200.00	
	========	
Total Expenses		1,630.00
		========
NET INCOME:		1,770.00

ED ENTREPRENEUR - BALANCE SHEET AS OF JUNE 30

ASSETS		LIABILITIES	
Cash in Bank	500.00	Accts Payable	200.00
Accts Receivable	2,200.00		========
Inventory	170.00	TOTAL LIABILITIES	200.00
		OWNER'S EQUITY	
		Capital Paid In	0.00
		May Earnings	900.00
		June Earnings	1,770.00
			========
		TOTAL EQUITY	2,670.00
	========		========
TOTAL ASSETS	2,870.00	TOTAL LIABILITIES & OWNER'S EQUITY	2,870.00

"Whew," sighed Ed, "that's a lot of work, but I do have to admit that it gives me a good view of the activity in June and where I am now. The only problem is, what happens when I get a big bunch of these reports? It seems to me that I can get buried in numbers and paper, and still not know which way I'm heading.

"For example, I've had this idea about leaving my present company and going into the Widget business full-time. How can I do a better job of determining whether or not this business can support me?"

"An excellent observation and a worthwhile question," Alice replied. "While there's probably nothing which will answer all your questions, there are **some** things you could do to help reduce the uncertainty.

"For example, you should probably get some more knowledge about the industry in which you're selling your products - perhaps some kind of market research to determine the need for Widgets, the competition you're likely to encounter, and the price you'll be able to charge over the long run. Unfortunately, the things we've done here **won't** help you with **this** part of the decision making process.

"There are some ways, however, to use the results of your accounting efforts to help you in your deliberations. One good approach is to develop **ratios** which, in turn, can help you figure out the **trends**. In other words, the idea is to establish comparisons to see if things are improving, staying pretty much the same, or getting worse.

"For example, let's compare Expenses as a percentage of Revenues. Using the May and June figures, we can set up a little chart - something like this:

ED ENTREPRENEUR - EXPENSES VS. REVENUES

Account Title	Month of May $	 %	Month of June $	 %	Year-to-Date $	 %
Net Sales	2,000.00	100.00	3,400.00	100.00	5,400.00	100.00
Cost-Goods Sld	300.00	15.00	430.00	12.65	730.00	13.52
Tools	50.00	2.50	0.00	0.00	50.00	0.93
Shop Rent	750.00	37.50	1,200.00	35.29	1,950.00	36.11
Net Income	900.00	45.00	1,770.00	52.06	2,670.00	49.44

"Now," Alice invited, "what can you see from this?"

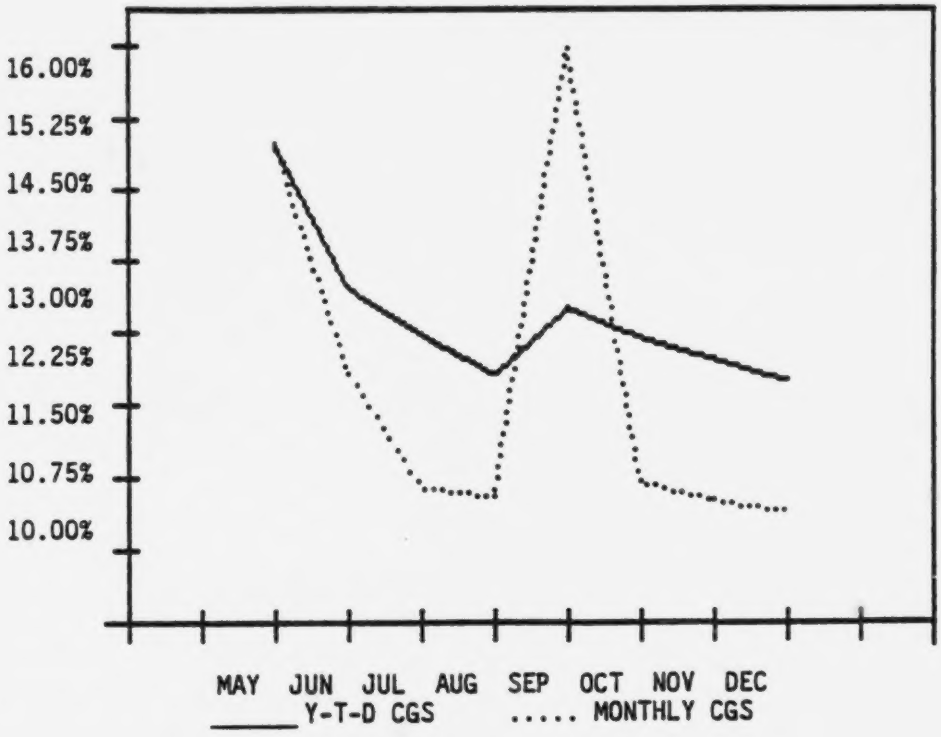
"Hey, that's easy! My Cost of Goods Sold is going down - I'm getting more done with less scrap. Likewise, my costs of Shop Rent are declining - it's not taking me as long to make a Widget. Now, I can see not only that my profit is improving, but I can also see which factors are affecting the improvement."

"Right!" she acknowledged. "And, one of the reasons we took the effort to add that returned Widget to Inventory was to avoid distorting the Cost of Goods Sold. Oh, sure, CGS would have still improved, but the results of your work wouldn't have been as obvious.

"But," Alice continued, "we've got one more step which will further help us to see how things are going. Remember, you commented earlier that you could get buried in the numbers? Well, here's a method which can help turn the numbers, the data, into truly useful information. I'll add a few hypothetical values for purposes of illustration," she said graphically, as she took out a piece of paper and began to plot some data points.

"Keep in mind, Ed, while this graph reflects Cost of Goods Sold as a percentage of Sales, it could have shown CGS in dollars per unit."

CGS AS A PERCENTAGE OF SALES - MAY THRU DEC (FORECAST)



As Alice finished her efforts she asked, "What would this chart tell you, Ed?"

"Holy cow!" Ed exclaimed. "Everything looks great except for that big jump in September."

"If this were your company and you saw this chart, what would you do?" Alice asked.

"I'd be looking very seriously to see what happened - could be an increase in the price of materials or, more likely, an increase in scrap. If I had a number of people working for me, I'd also check into labor costs. As long as I'm fairly small, though, I'll probably know about these things as they occur.

"Still, it makes sense to put things in this form so I can focus on the important items without being overwhelmed by all the data. Now I understand why the boss at the shop has all those charts on his wall."

"Ed, my friend and neighbor," Alice smiled as she stood up and stretched, "you've just graduated with flying colors from Alice's beginning school of accounting and financial management!"

"I'm truly pleased with what you've taught me this afternoon. And, looking at the clock, I think I owe you about $125 for the education."

"I'll tell you what, Ed. Make it $100 even, a steak on the grill, some well-chilled wine, and I'll call it even."

"Done!" And Ed started the grill.

As they relaxed on the patio after dinner, Alice decided to give Ed some additional food for thought.

"Earlier, Ed, you mentioned that you had made about $30 per hour in May. What do you feel your hourly earnings were in June?"

"Let's see," he said thoughtfully, "I spent about 24 hours in manufacturing, an hour getting raw materials, about six hours preparing the invoices, and another hour delivering the Widgets - say, 32 hours altogether." He punched his calculator quickly. "That's a little over $55 per hour!"

"Now," challenged Alice, "if I correctly understand what you've said, you have an interesting problem facing you." Taking another worksheet from her pad, she put down some more figures.

ED ENTREPRENEUR - HOURLY LABOR EXPENSES

Account Title	Month of May Hours	Month of May $/Hr.	Month of June Hours	Month of June $/Hr.	Year-to-Date Hours	Year-to-Date $/Hr.
Manufacturing	15	30.00	24	55.00	39	45.38
Pickup/Delivery	5	30.00	2	55.00	7	37.14
Administration	10	30.00	6	55.00	16	39.38
Totals	30	30.00	32	55.00	62	43.06

"Now, Ed, as a businessman, what does this set of figures tell you?"

"If I owned a company and saw figures such as these, I'd blow my stack! Fifty-five dollars an hour for these jobs is just as outrageous as $50 per hour for George's shop!"

"And," Alice continued, "your labor costs for this month are going to have to include another four hours of bookkeeping."

"What I hear you saying is that I should allocate an appropriate value to these jobs, and then decide which ones I'm going to do, and which ones are better done by someone else." Ed paused, then said, "A good machinist should earn about $15 per hour. Jones Steel will deliver my materials for $15 per load. What should I expect to pay a good assistant to handle the paperwork?"

"Probably about $10 to $12 per hour for, say, three hours per month," she responded. "Add another one-third for fringe benefits and payroll taxes if the person is an employee, or pay him or her the same additional amount if the work is done as an independent contractor."

Ed worked furiously with his calculator for a few minutes.

"If I were to redo these figures to allocate costs directly to each of the functions, they would begin to make more sense. For example, I'll use $12 plus 1/3 for administrative work, and $15 plus 1/3 for machinist's labors."

ED ENTREPRENEUR - REVISED HOURLY LABOR EXPENSES

Account Title	Month of May Hours	$/Hr.	Total	Month of June Hours	$/Hrs.	Total
Manufacturing	15	20	300	24	20	480
Pickup/Delivery	-	-	15	-	-	15
Administration	3	16	48	3	16	48
Management - Ed			537			1,227
Totals			900			1,770

"Now I can see what my profit line is, or at least what the value of my management efforts are - because I separated them from the other jobs."

"If I were to keep track of my hours spent in management tasks, such as planning, and allocate an hourly value to that work, I'd get a much better idea of whether or not my business is really making any money," he concluded.

Ed was quiet for several minutes. When he finally spoke, there was a gleam in his eye. "I've been planning on taking off for a coule weeks of vacation. It's time for my annual fishing trip. Orders are down for the moment - guess all the doctors are on vacation, too.

"This time it's going to be a working vacation. I hear that the fish aren't biting too well right now anyway; so I'll have plenty of time to do some thinking.

Dr - Cr
A-L=OE
SSW etc

"What I really need now is a business plan. But, I need another bit of information before I can put one together. If I were to purchase my own equipment, how would I handle the bookkeeping?"

"Quite simply," Alice responded. "Equipment, such as the kind used in a machine shop, should have a useful life of at least five years and is considered a capital investment, rather than an expense. One way to handle it is to expense a fraction, say 1/60 of the equipment's value, each month. This would be similar to a charge for rent, but it's called **depreciation**. It's a method of writing off the equipment's value over a period of time to compensate the owner for wear and tear.

"But," she cautioned, "there are several different ways of handling depreciation - I've only mentioned one. When you come to the point of making a decision about a purchase of this magnitude, I suggest that we get together first to discuss it. In that way, you will be more informed and can pick the one most appropriate for you."

"That really makes some sense," agreed Ed. "I'm going to work on my business plan while I'm waiting for the big ones to bite. This should be a fascinating fishing trip."

When Ed returned from his vacation, he had his plan fairly well organized. He went over it with Alice, who helped him smooth out a few wrinkles.

Realizing that he could keep better track of his business cash if he separated it from his household finances, he opened a business checking account, depositing the current business cash balance. He also added the original $350 as capital paid in.

He retained Alice's accounting firm to handle his firm's books and prepare invoices. The charges would be $100 per month which included not only the bookkeeping services and preparation of invoices, but also periodic consultation with Alice to help him as questions arose.

On Ken's recommendations, he also contracted with Mike to promote the sales of SSW's. Mike was a seasoned medical supplies salesman who represented several manufacturers, and who had earned Ken's respect. The understanding was that Mike would receive a 10% commission only when the payments for SSW's were received by Ed.

Over the next couple months, Accounts Receivable dropped to about $1,000 and Sales increased to about 50 units per month. Ed was able to concentrate his time on the manufacturing, a long time love, along with the new excitement of being a manager.

Ed's current financial statements were as follows:

ED ENTREPRENEUR - OPERATING STATEMENT FOR OCTOBER

REVENUES:		
Sales of 50 Widgets	5,000.00	
Less: Returns	0.00	
Net Sales		5,000.00
EXPENSES:		
Sales Commissions	500.00	
Cost of Goods Sold	600.00	
Tools	25.00	
Shop Rental	1,500.00	
Accounting Services	100.00	
Total Expenses		2,725.00
NET INCOME:		2,275.00

ED ENTREPRENEUR - BALANCE SHEET AS OF OCTOBER 31

ASSETS	
Cash in Bank	7,470.00
Accts Receivable	1,000.00
Inventory	350.00
TOTAL ASSETS	8,820.00

LIABILITIES	
Comm. Payable	250.00
TOTAL LIABILITIES	250.00
OWNER'S EQUITY	
Capital Paid In	350.00
May Earnings	900.00
June Earnings	1,770.00
July Earnings	500.00
August Earnings	1,000.00
September Earnings	1,775.00
October Earnings	2,275.00
TOTAL EQUITY	8,570.00
TOTAL LIABILITIES & OWNER'S EQUITY	8,820.00

One problem remained - that $50 per hour Ed was having to pay George for the use of the shop.

By sheer luck, Ed found out that he could purchase some nearly new shop equipment from an estate for $24,000. Further, the estate would rent that portion of the building where the equipment was installed for $375 per month if he bought the equipment.

He went to see his favorite banker, Larry Lender, to find out what kind of financing they would suggest. Larry told Ed that, based on the reputation Ed had established together with the financial reports Ed had had the foresight to bring with him, the bank would be willing to lend 80% of the funds necessary to purchase the equipment. The loan would be amortized (paid off) over three years, with interest at a rate of 15% on the unpaid balance. Monthly payments would be $666.

Ed hurried over to Alice's office to get the benefit of her insight.

"What should I do?" he asked.

"I'm not in a position to tell you what to do, Ed," she responded, "but I can help by showing you how last month's financial statements would appear if you had owned the equipment at that time."

She took another worksheet and began to make some adjustments to last month's reports. "I'm going to include only those accounts from the Operating Statement which will change as a result of a purchase."

ED ENTREPRENEUR - ADJUSTMENTS TO OCTOBER FOR NEW EQUIPMENT

Account Title	Actual Debit	Actual Credit	Adjustments Debit	Adjustments Credit	Projected Debit	Projected Credit
Shop Rent				a) 1,500		
Depreciation			c) 400			
Building Rent			d) 375			
Interest Exp.			e) 240			
Net Income Adj.			1,015	1,500		
Cash	7,470		a) 1,500	b) 4,800 d) 375 e) 666	3,129	
Accts Rec	1,000		0	0	1,000	
Inventory	350		0	0	350	
Machinery	0		b) 24,000	0	24,000	
Depreciation	(0)		c) (400)	0	(400)	
Comm Payable		250	0	0		250
Bank Loan		0	e) 426	b) 19,200		18,774
Owner Equity		8,570	1,015	1,500		9,055
Totals	8,820	8,820	26,541	26,541	28,079	28,079

As Alice made the adjustments, she labeled each one and discussed it with Ed:

(a.) represented **not** having to pay the $1,500 for shop rental;

(b.) was the addition of the machinery as a capital asset and required corresponding credits to Cash of $4,800 (the down payment) and Bank Loans of $19,200;

(c.) was the allowance for Depreciation for the month, treated uniquely as a negative Debit so that it makes more sense when printed on the Balance Sheet;

(d.) was the monthly Rent for the new building; and

(e.) was the monthly payment to the bank, split between the interest which would have been due on the loan, and the remainder of the payment which would have been applied to the reduction of the loan.

"Are you saying," Ed challenged, "that by buying the equipment my Net Income would have gone up by $485?"

"Yes," she confirmed, "as a result of decreasing costs. In addition, if we can set the down payment aside for a moment, your monthly cash flow would have improved by $451 - the $1,500 saved on rent to George minus the new charges for the rent on the building and the payment on the loan.

"I think you can already see the results of this opportunity," she remarked. "We'll finish the financial statements anyway, just so there is no confusion."

ED ENTREPRENEUR - ADJUSTED OPERATING STATEMENT FOR OCTOBER

REVENUES:		
Sales of 50 Widgets	5,000.00	
Less: Returns	0.00	
Net Sales		5,000.00
EXPENSES:		
Sales Commissions	500.00	
Cost of Goods Sold	600.00	
Tools	25.00	
Depreciation	400.00	
Building Rent	375.00	
Interest Expense	240.00	
Accounting Services	100.00	
Total Expenses		2,240.00
NET INCOME		2,760.00

ASSETS		LIABILITIES	
Cash in Bank	3,129.00	Comm. Payable	250.00
Accts Receivable	1,000.00	Bank Loans	18,774.00
Inventory	350.00		
Machinery	24,000.00		
Less: Dep'n	(400.00)	TOTAL LIABILITIES	19,024.00
		OWNER'S EQUITY	
		Capital Paid In	350.00
		May Earnings	900.00
		June Earnings	1,770.00
		July Earnings	500.00
		August Earnings	1,000.00
		September Earnings	1,775.00
		October Earnings	2,760.00
		TOTAL EQUITY	9,055.00
TOTAL ASSETS	28,079.00	TOTAL LIABILITIES & OWNER'S EQUITY	28,079.00
	=========		=========

"Remember, though, that the rent for George's shop has varied in the past depending on how many Widgets you were making. These new payments will be there even if you have no orders."

"Alice, I really want to go ahead with this change. How do you see my chances of success?"

"There's no way I can forecast any company's success," she reminded him. "You still need to survey the marketplace and draw conclusions as to the likelihood of continuing increases in sales. Once you've done this, you can use your newly acquired skills in accounting to predict the results. "And, by the way, now that you have a sales rep, you can use him for valuable feedback from the marketplace. Ask him to keep his eyes open for information, especially regarding opportunities for new products or accessories.

"There will always be some uncertainty - that's what we call business risk. And, because of this risk, the entrepreneur deserves to make a profit."

There you are - an overview of the world of bookkeeping and accounting. You should now have a reasonable understanding of the fundamentals and an appreciation of their value.

We have covered the basics - the Balance Sheet categories of Assets, Liabilities, and Owner's Equity, along with the Operating Statement categories of Revenues, Expense and Net Income. And, we've shown how the periodic Net Income affects the Balance Sheet.

We have also demonstrated how diligence and thoroughness are keystones in the accounting process. We've discussed how each posting to one journal requires a corresponding entry in another journal (or journals) in order to keep things in balance. Discipline is an absolute **must**!

We've learned that Revenue accounts are those which reflect our earnings, whether we received the cash at the time of sale or merely the right to receive payment in the future. Revenues are considered **Credits** (abbreviated **Cr.**).

Expense accounts, we found, were those to which we posted the costs of day-to-day operations. Once again, this was true when we had made payment immediately, and also when we had incurred the obligation to pay later. Expenses are called **Debits** (abbreviated **Dr.**).

To keep things in balance, we discovered that Assets (the value of the things which we own) are normally Debits, and both Liabilities (the amounts we owe to others) and Owner's Equity (the remaining value) are Credits.

Further, we have explored some methods of using and interpreting the results of your accounting efforts as devices for management of a business.

You see, the figures are not an end unto themselves. Instead, they are tools which are there for your use as you seek ways of establishing your business on a firm foundation and guiding it toward your goals.

CHAPTER 12

Accounting for success

Learn to use these management tools

And you hoped we were through with this subject! SURPRISE!!

You see, this business of accounting is a truly critical implement in the entrepreneur's toolkit. With it, one can reasonably construct a foundation for the business which can help him/her weather most any storm. Without it, the entrepreneur's foundation is built upon loose sand -- and that invites calamity.

In Chapter 11 we touched only upon the most basic of accounting principles. There are many, many more which must be understood and practiced if you're going to truly master the situation. NOTE: This doesn't mean you have to become a full-fledged wizard in accounting -- merely that you understand the principles and apply them vigorously. If you don't have the kind of background or other capacity to manage these items personally, **hire someone who does!** Your time could be better spent doing those things which are best within your range of talents instead of attempting to be all things to all people.

In this chapter we're going to explore some slightly more advanced accounting concepts with which most every business must

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deal -- three topics which are of major importance to every entrepreneur, yet frequently misunderstood.

They are: (1) depreciation of personal property; (2) federal income tax returns; and (3) handling of payrolls. While we'll not get into **all** the enormous detail of any of these items, we **will** address them in sufficient depth to give you a foundation upon which you can build as may be appropriate to the nature of your business.

When we're done, you should have a grasp of the fundamentals in each of these key areas, and be able to apply these concepts to your business.

Specifically, this chapter will help you to:

1. Understand and apply concepts of depreciation to the equipment needed by your business;

2. Prepare a preliminary federal income tax return;

3. Grasp the fundamental responsibilities of the business person who hires others to perform services.

Please understand that this chapter will necessarily be rather brief in comparison to the thousands of pages of rules, regulations and interpretation written on these subjects. Its purpose is to provide an introduction, rather than to create an expert.

FURTHER: This material has been prepared with the understanding that the publisher is not engaged in rendering legal, tax or accounting services. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

Enough for the preliminaries -- let's proceed to the concepts.

DEPRECIATION

When we left Ed Entrepreneur in the last chapter, he was facing the dilemma of whether or not to undertake a major increase in his company's activities and responsibilities.

Specifically, he was wrestling with the opportunity to proceed with the purchase of machinery worth $24,000, and the rental of the space in which it was installed, in order to reduce his costs of manufacturing. Since his Stainless Steel Widgets (SSWs) had been received so enthusiastically by the medical practitioners, the savings in manufacturing costs would allow Ed to pursue a major effort in sales and marketing to sustain and increase the demand for SSWs.

It's now a few weeks into the new year, and Ed has brought his books to Alice Accountant for review and to prepare his tax returns. The year-end statement showed the following:

ED ENTREPRENEUR -- OPERATING STATEMENT
YEAR ENDING DECEMBER 31, 1986

REVENUES:		
Sales of 285 Widgets	28,500.00	
Less: 3 Returns	300.00	
Net Sales		28,200.00
Less: Cost of Goods Sold	3,420.00	
Gross Profit		24,780.00
EXPENSES:		
Sales Commissions	1,550.00	
Tools & Supplies	95.00	
Depreciation	800.00	
Shop Rent	6,325.00	
Building Rent	750.00	
Interest Expense	475.00	
Accounting Services	600.00	
Total Expenses		10,595.00
NET INCOME:		14,185.00

ED ENTREPRENEUR --BALANCE SHEET
AS OF DECEMBER 31,1986

ASSETS		LIABILITIES	
Cash in Bank	4,428.00	Comm. Payable	90.00
Accts Receivable	900.00	Bank Loans	18,343.00
Inventory	440.00		
Machinery	24,000.00	TOTAL LIABILITIES	18,433.00
Less: Accum Depn	(800.00)		
		OWNER'S EQUITY	
		Capital Paid In	350.00
		Current Earnings	14,185.00
		Less: Curr Draws	(4,000.00)
		TOTAL EQUITY	10,535.00
TOTAL ASSETS	28,968.00	TOTAL LIABS+EQUITY	28,968.00
	=========		=========

"Ed," Alice exclaimed, "you should be quite proud of what's reflected in these financial reports! Your new business is really flourishing, and the books are in first-class shape. We could prepare the tax return right now -- except for one thing."

"Oh, what's that?" he asked.

"You'll remember," she responded, "that our discussion about depreciation back in November focused on only one philosophy, and that I'd mentioned there were other methods which should be considered before making a decision. From what I see here, we'd better explore another avenue before we close out the books for the year.

"For example," she continued, "you're deducting 1/60th of the equipment's cost each month -- what's known as the **straight line** method of depreciation. From a business point of view, that's a satisfactory approach so long as this rate reasonably reflects real life. Tell me, what's happening in the areas of technological improvements with respect to the kind of equipment you have?"

"Well," Ed said thoughtfully, "the mechanical systems are remaining pretty much the same, but there are all sorts of new things happening to the control of the equipment -- microprocessors and the like!"

"And what will these new improvements do to the value of your equipment?" Alice challenged.

"It's becoming obsolete even while we discuss it," he replied. "The parts of the equipment which do the hard work will be good for a long time, but the concepts which are being used for control and accuracy are changing almost daily. That's probably why I got the package for such a good price."

"Then," Alice posed, "should depreciation consider only wear and tear on a straight line basis, or should there be a greater allowance in the early years to acknowledge this accelerated devaluation?"

"Now that you mention it," Ed responded, "the value of the equipment will decline more in the early years because of what the people in my trade call 'technological obsolescence'. While straight line depreciation probably reflects reasonable wear and tear of the equipment as it stands, some form of accelerated depreciation would better reflect its decline in value through obsolescence."

Alice smiled. "Prudent analysis, my friend. All too many people ignore this very critical aspect of their invesments in capital equipment. And the Congress made allowance for this type of accelerated depreciation in the Economic Recovery Tax Act of 1981 when it created the Accelerated Cost Recovery System, ACRS. This legislation permits either (1) accelerated depreciation for equipment such as yours (acquired subsequent to December 31, 1980 and called **recovery property**) over a five-year period, or (2) allows straight line depreciation over 5, 12 or 25 years. ACRS enables the business person to select a schedule which is more consistent with the realities of the equipment's declining value. The normal schedule dictates accelerated write-offs at the rate of 15%, 22%, 21%, 21% and 21% per year, respectively, over the five-year recovery period.

"Let's take a worksheet and see the difference between straight line and accelerated depreciation in this instance.

"First of all, a peculiarity of ACRS requires that, if you choose to depreciate your equipment using an alternative straight line schedule, the first year's depreciation is limited to one-half the normal full-year depreciation -- no matter when during the year you put the equipment in service. In this situation, the depreciation schedule would look like this:" and she began to write.

Basis: $24,000 (Purchase Price)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
	(10%)	(20%)	(20%)	(20%)	(20%)	(10%)	(100%)
SL Depn	2,400	4,800	4,800	4,800	4,800	2,400	24,000

"Now," she continued, "if we were to use the accelerated schedule, we'd have something rather different."

Basis: $24,000 (Purchase Price)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
	(15%)	(22%)	(21%)	(21%)	(21%)	(0%)	(100%)
Accel Depn	3,600	5,280	5,040	5,040	5,040	0	24,000

"O.K., Ed, which schedule makes the most sense in your situation?"

"That's easy," he said as he smiled. "The accelerated schedule more accurately reflects what's happening to the value of the equipment. Further, while the total values are the same, the accelerated schedule shifts the tax benefits to earlier years." He quickly punched some keys on his calculator. "Multiplying my 38% tax bracket times the $3,600 and $2,400 deductions for first year depreciation tells me that the accelerated schedule would reduce my taxes by $1,368 in Year 1 while straight line would reduce them only by $912. Accelerated depreciation will save me $456 in taxes right away."

"So far, so good," Alice confirmed. "You'd get the full value of the depreciation over the entire life of the schedule, whichever method you choose. The tax savings occur earlier with the accelerated method than when using the straight line alternative.. Sometimes there can be good reason to take such benefits as soon as possible."

"I hear you, Alice -- but tell me why anyone might select straight line, especially the 12- or 25-year options?"

"Oh, there could be several reasons. Maybe they've already had so many losses that there's little or no value in another deduction. Or, perhaps the near-term tax rate is very low, and the expected rate in the future is very high. Remember, these rules apply equally to proprietorships such as yours, and to partnerships and corporations as well."

"O.K., then, that takes care of the depreciation and we can do the tax return -- right?"

"Well, not quite. There is one more thing which you should consider. It is what's known as a Section 179 deduction. In your case, this would allow you the opportunity to write off an additional $5,000 for this first year the equipment's in operation in your company."

"You're kidding!" Ed exclaimed.

"Not really. It works in this way: The Congress authorized an additional deduction, up to $5,000, but the same amount must be deducted from the purchase price to determine the depreciable basis. Here, I'll show you on the worksheet."

Basis:	$24,000	(Purchase Price)
Less:	5,000	(Section 179)
	$19,000	Depreciable Basis

	Year 1 (15%)	Year 2 (22%)	Year 3 (21%)	Year 4 (21%)	Year 5 (21%)	Totals (100%)
Accel Depn	2,850	4,180	3,990	3,990	3,990	19,000
One-time S.179	5,000	0	0	0	0	5,000
Tax Sav @ 38%	2,983	1,588	1,516	1,516	1,516	9,120

"You just made my day!" Ed exclaimed gleefully."

"Tell me, Alice," he questioned, "have these tax benefits always been available?"

"No, Ed. Every year, it seems, the Congress looks for ways to improve the tax laws. Sometimes the improvements are a little more favorable than others. In this instance, the 1981 legislation appears to have been aimed at stimulating an ailing national economy.

"Also, it's important to realize that many of these rules didn't exist before 1983, and others have existed in modified form. Further, not all capital purchases are treated the same way."

"How do you mean?"

"For example," Alice explained, "capital investments such as yours, if they had been purchased and put into service **before** January 1, 1981, receive less favorable treatment for depreciation.

"Under the **current** rules," she continued, "an automobile purchased for business use qualifies for three-year treatment, rather than five. In some instances, if a capital purchase (such as an automobile) is used for both business and personal use, the tax benefits must be pro-rated depending upon the percentage of time the equipment is used for business. Further, under new rules established in 1984, an automobile used less than 50% for business is not eligible for the Section 179 deduction. There are some other restrictions as well. For example, depreciation deductions for automobiles placed in service after April 2, 1985 are limited to $3,200 the first year and $4,800 in subsequent years.

"Also, if there were additional costs for shipping or installing a machine, these costs are added to the purchase price and become part of the depreciable basis.

"Another example would be investment real estate which has a totally different set of rules.

"At the present time the Section 179 writeoff is scheduled to increase to $7,500 for 1988 and 1989, and to $10,000 thereafter.

"Further, there are some penalties if you don't keep the property for the full period. And, when you sell property which has been depreciated, you may have to pay income taxes at ordinary rates on some or all of the depreciation which has been taken.

"Finally, once you've chosen a depreciation schedule, the odds are that you'll be expected to stick with it throughout the scheduled life of the asset. Obtaining IRS approval for change requires justification. In some instances, once a permitted schedule is adopted, no change is allowed.

"In essence, what I'm saying is that decisions to acquire or dispose of depreciable assets should be made only after first considering the tax implications. That doesn't mean you don't proceed with the transaction anyway, merely that you do so with a good understanding of **all** the effects of the decision."

"Alice, how do you keep up with all of these things? How can I as a businessman hope to stay abreast of them?"

"First, a good accountant makes special effort to maintain his or her knowledge of tax laws, including the changes which are under consideration on a day-to-day basis. In this way, we're better able to assist people such as yourself when you need us.

"Second, there are many publications which you can read to keep yourself knowledgeable. I suggest that you get a copy of IRS Publications 534, **Depreciation.** It's long and detailed, but it can really help. The only problem is that, once it's published, it can become obsolete the very next day if you attempt to use it for future planning. Here, again, you can see the value of retaining qualified tax and accounting counsel."

Ed sighed. "And all I wanted to do was make widgets! O.K., what do we do next?"

"First, we should create some asset records so that we'll have a history of how we've handled the depreciation on the equipment you've purchased. Let's use a separate page for each item of equipment, just in case some change occurs in the future which doesn't affect all the items."

Taking a blank sheet from Ed's ledger book, Alice began to review the documentation relating to the purchase of the equipment, and made entries on the form.

Asset# 101
DESCRIPTION: Lathe MFR.: ABC Corp. MODEL: 321 SERIAL #: 76543
PURCHASE DATE: November 10, 1986 DEPN SCHED: Accel (5)

DESCRIPTION	DR	CR	BOOK VAL
Purchase Price	16,000.00		
Less: Sec. 179 deduction	(5,000.00)		
Depreciable Basis	11,000.00		11,000.00
1986 Accel Depn @ 15%	(1,650.00)		9,350.00

"Now, Ed, you go ahead and prepare the other two asset records and we'll be done with this part of the job. Any questions?"

"No, Alice, except to say that I don't see how a beginning businessperson could ever hope to handle all this complexity without the assistance of someone such as yourself."

"Ed, **you** deserve the credit for recognizing at the beginning that you needed help, and that your time was better spent performing the duties which match your skills."

* *

Special Note to the Reader: The complexity and constantly changing nature of tax legislation and IRS rules and interpretations preclude a more in-depth treatment of the subject of depreciation.

The innumerable methods of depreciation, both current and past, and the subtleties of their application to specific situations, dictate that the responsible entrepreneur undertake extensive self-education or hire the appropriate talent.

* *

"Now," Alice pointed out, "we must make some changes to the financial statements to reflect these adjustments in depreciable basis and depreciation.

"First of all, we increase the depreciation expense on the operating statement by $2,050, from $800 to $2,850, and make a corresponding increase in accumulated depreciation on the balance sheet. Remember, this asset account is treated as a negative debit. Then, we decrease the machinery account on the balance sheet by $5,000 to represent the Sec. 179 deduction and offset this decrease in assets with a one-time debit to current earnings.

"Finally, in order to be sure that we're still in balance, we total the operating statement credits -- in this case, zero -- and carry them down to the current earnings line, and total the debits and carry them down to the same line. Then, when we cross-foot the balance sheet accounts, everything should be in balance.

ED ENTREPRENEUR -- TRIAL BALANCE WORKSHEET
FOR DECEMBER 31, 1986

	Actual		Adjustments		Adjusted	
Account Title	Debit	Credit	Debit	Credit	Debit	Credit
Depreciation			2,050			
Net Income Adj			2,050	0		
Cash	4,428				4,428	
Accts Receivable	900				900	
Inventory	440				440	
Machinery	24,000			5,000	19,000	
Accum Depn	(800)		(2,050)		(2,850)	
Comm. Payable		90				90
Bank Loans		18,343				18,343
Capital Paid In		350				350
Current Earnings		14,185	7,050	0		7,135
Current Draws		(4,000)				(4,000)
Totals	28,968	28,968	5,000	5,000	21,918	21,918

"Then we'll prepare an adjusted operating statement and balance sheet. Once they're done, the tax return will be simple."

ED ENTREPRENEUR - ADJUSTED OPERATING STATEMENT
FOR THE YEAR ENDING DECEMBER 31, 1986

REVENUES:		
Sales of 285 Widgets	28,500.00	
Less: 3 Returns	300.00	
Net Sales		28,200.00
Less: Cost of Goods Sold	3,420.00	
Gross Profit		24,780.00
EXPENSES:		
Sales Commissions	1,550.00	
Tools & Supplies	95.00	
Depreciation & Sec 179	7,850.00	
Shop Rent	6,325.00	
Building Rent	750.00	
Interest Expense	475.00	
Accounting Services	600.00	
Total Expenses		17,645.00
NET INCOME:		7,135.00
		=========

ED ENTREPRENEUR - ADJUSTED BALANCE SHEET
AS OF DECEMBER 31, 1986

ASSETS		LIABILITIES	
Cash in Bank	4,428.00	Comm. Payable	90.00
Accts Receivable	900.00	Bank Loans	18,343.00
Inventory	440.00		
Machinery	19,000.00	TOTAL LIABILITIES	18,433.00
Less: Accum Depn	(2,850.00)		
		OWNER'S EQUITY	
		Capital Paid In	350.00
		Current Earnings	7,135.00
		Less: Curr Draws	(4,000.00)
		TOTAL EQUITY	3,485.00
TOTAL ASSETS	21,918.00	TOTAL LIABS+EQUITY	21,918.00
	=========		=========

"O.K.," Alice continued, "it's time we went to work on the tax return. Let's begin with Form 4562, Depreciation and Amortization, since we need the numbers from it to insert in your company's tax return.

"First of all, since you're doing business under your own name, we put it on the top line along with your social security number. If you were doing business under another name, or had a separate employer identification number, we'd use those instead. On the next line we put the type of business you have - Manufacturing.

"Section A of Part I of the form is used for the Section 179 deduction for the equipment by inserting 5-year, 24,000, and 5,000, in columns A, B, and C.

"In Section B, we skip down to line 4(b), 5-year property and write in 19,000, 5, PRE, and 2,850, in columns C through F, respectively. The PRE means you're using the pre-determined accelerated depreciation schedule. If you had elected to use an alternate, 5-year, straight line schedule, we would have inserted the letters SL in column E, and 1,900 in column F.

"Section C is for property being depreciated under former rules--such as your 10-year old lathe if you had elected to include it in your business activities.

"Finally, on line 10, we merely total all the entries on lines 3 - 9. In this case, it's the 7,850," Alice explained.

Form **4562**

Department of the Treasury
Internal Revenue Service (O)

Depreciation and Amortization

▶ See separate instructions.
▶ Attach this form to your return.

OMB No. 1545-0172
1987
Attachment Sequence No. 67

Name(s) as shown on return: EDWARD E. ENTREPRENEUR

Identifying number: 831-99-7877

Business or activity to which this form relates: MANUFACTURING

Part I Depreciation

Depreciation (Do not use this part for automobiles, certain other vehicles, computers, and property used for entertainment, recreation, or amusement. Instead, use Part III.)

Section A.—Election To Expense Depreciable Assets Placed in Service During This Tax Year (Section 179)

	(a) Description of property	(b) Date placed in service	(c) Cost	(d) Expense deduction
1	5-YEAR	11/87	24,000	10,000

2	Listed property—Enter total from Part III, Section A, column (h)	
3	Total (add lines 1 and 2, but do not enter more than $10,000)	10,000
4	Enter the amount, if any, by which the cost of all section 179 property placed in service during this tax year is more than $200,000	
5	Subtract line 4 from line 3. If result is less than zero, enter zero. (See instructions for other limitations)	10,000

Section B.—Depreciation

(a) Class of property	(b) Date placed in service	(c) Basis for depreciation (Business use only—see instructions)	(d) Recovery period	(e) Method of figuring depreciation	(f) Deduction
6 Accelerated Cost Recovery System (ACRS) (see instructions): *For assets placed in service* **ONLY** *during tax year beginning in 1987*				▨	▨
a 3-year property	▨				
b 5-year property	▨	14,000	5	PRE	2,100
c 7-year property	▨				
d 10-year property	▨				
e 15-year property	▨				
f 20-year property	▨				
g Residential rental property					
h Nonresidential real property					

7	Listed property—Enter total from Part III, Section A, column (g)	
8	ACRS deduction for assets placed in service prior to 1987 (see instructions)	

Section C.—Other Depreciation

9	Property subject to section 168(f)(1) election (see instructions)	
10	Other depreciation (see instructions)	

Section D.—Summary

11	Total (add deductions on lines 5 through 10). Enter here and on the Depreciation line of your return (Partnerships and S corporations—Do NOT include any amounts entered on line 5.)		12,100
12	For assets above placed in service during the current year, enter the portion of the basis attributable to additional section 263A costs. (See instructions for who must use.)		▨

Part II Amortization

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
1 Amortization for property placed in service **only** during tax year beginning in 1987			▨	▨	▨
2 Amortization for property placed in service prior to 1987					
3 Total. Enter here and on Other Deductions or Other Expenses line of your return					

See Paperwork Reduction Act Notice on page 1 of the separate instructions.

"Now, Ed, we can proceed to the income tax return. Since you're operating as a proprietorship, your company's tax return is prepared on Schedule C, Profit or (Loss) from Business or Profession (Sole Proprietorship), a form which is a part of the personal Form 1040. Unfortunately, you can't use either Forms 1040EZ or 1040A since they're intended only for those who have no self-employment.

"The top line is a repeat of what we put on the first line of Form 4562 -- your name and social security number. On the next line, A, we again insert your main business activity, Manufacturing, followed by a description of your product which we could call Medical Instruments.

"Block B is for your business name and address. If you had a separate employer identification number, we'd insert it in block C.

"Block D is used to reflect the method which you've chosen to value your inventory. As a manufacturer, the IRS requires that you employ the **full absorption method** for valuing your inventory. In essence, this means that both direct **and** indirect production costs must be considered in determining inventory value. Direct costs are the ones directly involved in the manufacturing process associated with labor, such as if you hired a machinist, and the materials. Indirect costs include other expenses incident to and necessary for the production process. Examples would be production equipment repairs, maintenance, rent, utilities, even supervisory wages.

"The major factor in this instance is that the IRS is saying you cannot expense all your costs of production for tax purposes when some of those costs are sitting in a finished goods or work-in-process inventory. For example, if you paid someone $10,000 to produce 1,000 SSWs, and sold only 600 of them, $6,000 of the labor would be expensed as a part of cost of goods sold, while the remaining $4,000 worth of labor would be included in ending inventory. The same philosophy would hold true for $1,000 worth of electricity to produce those same 1,000 widgets.

"In your case, since you have no production employees whose wages you would expense, and since you carry no finished goods inventory, I believe we can properly expense things as they are on your Operating Statement. **If you make any change** in your activities, please be sure to consult with me first so we can adjust your books accordingly.

"There are other methods which, under special circumstances and depending on the type of business a person is running, can be used to value inventory. And, in some instances, one might value an inventory under one method for Operating Statement/Balance Sheet purposes, and another method for tax purposes. Keys to responsible business practices and tax reporting include the doctrine of accurate accounting and consistency from one period to the next.

"Block E is used to describe the **accounting method** which you employ -- **cash** or **accrual**. This is something which we've not discussed before. In its most fundamental form, it means that you either recognize income and expenses when you **receive/pay** them, or when you have **earned/incurred** them. Your books are currently following the accrual system in that you count sales as income when the sale is made, even though you haven't received payment. Similarly, you recognize the obligation to pay your salesman for those same sales.

"The guideline employed by the IRS is that, if an inventory is involved as an income-producing factor, such as in your manufacturing operation, only the accrual system may be used for purchases and sales **of merchandise.** Many other small companies -- a service company, for example -- use the cash approach. Once again, the key is consistency.

"In your case, since you have inventories, and the accrual system appears to most accurately reflect your business, I recommend that you use this method for tax purposes. By doing this, your tax return can be prepared directly from your financial statement without modification.

"Further information on inventory valuation and accounting methods can be found in **Accounting Periods and Methods,** IRS Publication 538.

"Block F merely asks if there's been any major change in your method of determining the value of your inventory. If so, you'd need to provide an explanation, a justification, for the change.

"Block G refers to whether or not you deducted expenses for use of your home as a major place of business activity. I don't think this applies in your case, does it, Ed?"

"No, not really," he responded. "But, I hear there can be some great tax benefits if one can write off part of the house for business."

"Yes," Alice continued, "but the rules are rather strict. Congress acknowledged that, in certain cases, there are valid deductions for business use of one's home which should be allowable, and it set some stringent guidelines by which the IRS measures this validity."

Alice continued to explain that, simply speaking, the guidelines specify that the space must be used **exclusively and regularly**:

1. as **the principal place** of business for any trade or business in which you engage; or

2. as **a place** to meet or deal with your clients or customers in the normal course of your business; or

3. **in connection** with your trade or businees, if you are using a separate structure which is **not attached** to your house or residence. In other words, you could use your garage as a machine shop **if** it were dedicated exclusively and regularly to your business, and not used as a garage for your car.

"If the business use meets one of these tests," Alice elaborated, "then a proportional amount of the costs for maintaining your overall residence are generally deductible. Examples would include:

> utilities, insurance, maintenance and repair, trash removal, real estate taxes, interest on home mortgage, and depreciation.

"There are a number of considerations, including a fair-share allocation of any of these deductions, and for further information you should refer to IRS Publication 587, **Business Use of Your Home**.

"In addition, when you sell your home, you may have to pay income taxes on a portion of the gain allocated to the percentage of the home which was used for business purposes. IRS Publication 523, **Tax Information on Selling Your Home,** contains details on this subject."

"But, Alice, why should I take the time to expense the business share of real estate taxes and mortgage interest on Schedule C, and the remainder on Schedule A, if they can both be fully deducted on Schedule A?"

"Well, stop and think for a minute, Ed. Bob, our bookkeeper, has already talked to you about self-employment taxes, hasn't he?"

"Oh, that's right! As a self-employed individual, I have to pay not only income taxes on my income, but also self-employment taxes on the same income. If I can properly deduct a portion of these items from my Schedule C income, rather than merely as a part of the Schedule A deductions, I get the additional benefit of saving the self-employment tax on the deduction."

"Right! Now we can begin transferring the information from your Operating Statement to the income and deductions sections of Schedule C.

"Sales and returns are taken directly from your statement. Before we enter anything on line 2, however, we must complete Part III of this schedule.

"On line 1 of Part III, we reflect a zero value for beginning inventory, since this is your first year of business. Line 2 is taken directly from your Purchases Journal, adjusted by any materials taken from inventory for your personal use, either for yourself as an individual or for use in your business such as demonstration or display merchandise. If you had employed others to manufacture the SSWs for you, we would reflect the costs of their labor on line 3.

"Materials and supplies consumed in the manufacturing process should be recorded on line 4. This would include the cutting oil and emery paper used in making the SSWs but, since the amount is trivial for this year, we can leave it under tools and supplies expense category. Next year, however, we should separately account for these items.

"Other miscellaneous costs associated with the inventory, such as shipping costs, should be reflected on line 5. In your case, we've already allocated your shipping costs to the materials in inventory on line 2. We total lines 1 through 5 on line 6. Then, on line 7, we insert the value of the inventory on hand at the end of the year, and subtract it from line 6, with the remainder, the Costs of Goods Sold, reflected on line 8."

"As we go through this, Alice, I get a much better understanding of why you've urged me to keep detailed records. Even the act of allocating shipping costs gives me a much better idea of what my true cost of goods sold really is! This way, I'm in a much better position to watch my costs, calculate the value of the inventory, and determine when I may have to adjust the price of the SSWs."

Alice smiled. "You're a joy to work with, Ed. You can't imagine how many business people have trouble understanding the **need** and the **value** of being thorough in their record keeping.

"Now, looking back at Part I, we enter the Cost of Goods Sold on line 2, subtract it from the Net Sales on line 1c, and enter the remainder on line 3. Note that this is the same Gross Profit as is shown on your Operating Statement. Lines 4a and 4b are zero in your case but, for example, if you were to allow others to use your machinery, the rent for such use would be entered on line 4b. Finally, on line 5, we add the total of Gross Profit along with other miscellaneous income to determine Gross Income.

"In Part II, we insert the various amounts from your Operating Statement on the appropriate lines. While things are quite simple, remember that the simplicity is achieved because you took the time to record purchases and other expenses on a regular basis. On line 31 we total the deductions from line 6 through line 30, and then subtract this value from line 5 to arrive at the Net Profit (or Loss) which we record on line 32. Once again, this figure agrees with the bottom line of your Operating Statement.

"IRS Publication 535, **Business Expenses,** is most helpful to the business person concerned with properly accounting for deductions.

"On line 33, we respond to the question with an X in the Yes or No square. This refers to debts where you either **are** or are **not** the person who is obligated to pay the debts **and who stands to lose** if the debts aren't paid -- in other words, **at risk.** If you were not at risk, then there could be restrictions on the deductions for interest expense.

SCHEDULE C
(Form 1040)

Department of the Treasury
Internal Revenue Service (0)

Profit or (Loss) From Business or Profession

(Sole Proprietorship)

Partnerships, Joint Ventures, etc., Must File Form 1065.

▶ **Attach to Form 1040, Form 1041, or Form 1041S.** ▶ **See Instructions for Schedule C (Form 1040).**

OMB No 1545-0074

1987

Attachment Sequence No 09

Name of proprietor: EDWARD E. ENTREPRENEUR

Social security number (SSN): 831 99 7877

A Principal business or profession, including product or service (see Instructions): MANUFACTURING (MEDICAL INSTRUMENTS)

B Principal business code (from Part IV) ▶ 1073

C Business name and address ▶ ED ENTREPRENEUR
8694 INDUSTRIAL RD, HOMETOWN, MN 55498

D Employer ID number (Not SSN)

E Method(s) used to value closing inventory:
(1) ☑ Cost (2) ☐ Lower of cost or market (3) ☐ Other (attach explanation)

F Accounting method: (1) ☐ Cash (2) ☑ Accrual (3) ☐ Other (specify) ▶

		Yes	No
G	Was there any change in determining quantities, costs, or valuations between opening and closing inventory? (If "Yes," attach explanation.)		✓
H	Are you deducting expenses for an office in your home?		✓
I	Did you file **Form 941** for this business for any quarter in 1987?		✓
J	Did you "materially participate" in the operation of this business during 1987? (If "No," see Instructions for limitations on losses.)	✓	
K	Was this business in operation at the end of 1987?	✓	

L How many months was this business in operation during 1987? ▶ 8

M If this schedule includes a loss, credit, deduction, income, or other tax benefit relating to a tax shelter required to be registered, check here. ▶ ☐
If you check this box, you **MUST** attach **Form 8271**.

Part I Income

1a	Gross receipts or sales	1a	28500
b	Less: Returns and allowances	1b	300
c	Subtract line 1b from line 1a and enter the balance here	1c	28200
2	Cost of goods sold and/or operations (from Part III, line 8)	2	3420
3	Subtract line 2 from line 1c and enter the **gross profit** here	3	24780
4	Other income (including windfall profit tax credit or refund received in 1987)	4	0
5	Add lines 3 and 4. This is the **gross income** ▶	5	24780

Part II Deductions

6	Advertising		**23**	Repairs	
7	Bad debts from sales or services (see Instructions.)		**24**	Supplies (not included in Part III)	95
8	Bank service charges		**25**	Taxes	
9	Car and truck expenses		**26**	Travel, meals, and entertainment:	
10	Commissions	1550	**a**	Travel	
11	Depletion		**b**	Total meals and entertainment	
12	Depreciation and section 179 deduction from Form 4562 (not included in Part III)	12100	**c**	Enter 20% of line 26b subject to limitations (see Instructions)	
13	Dues and publications		**d**	Subtract line 26c from 26b	
14	Employee benefit programs		**27**	Utilities and telephone	
15	Freight (not included in Part III)		**28a**	Wages	
16	Insurance		**b**	Jobs credit	
17	Interest:		**c**	Subtract line 28b from 28a	
a	Mortgage (paid to financial institutions)		**29**	Other expenses (list type and amount):	
b	Other	475			
18	Laundry and cleaning				
19	Legal and professional services	600			
20	Office expense				
21	Pension and profit-sharing plans				
22	Rent on business property	7075			

30	Add amounts in columns for lines 6 through 29. These are the **total deductions** ▶	30	21895
31	**Net profit or (loss).** Subtract line 30 from line 5. If a profit, enter here and on Form 1040, line 13, and on Schedule SE, line 2 (or line 5 of Form 1041 or Form 1041S). If a loss, you **MUST** go on to line 32	31	2885

32 If you have a loss, you **MUST** answer this question: "Do you have amounts for which you are not at risk in this business?" (See Instructions.) ☐ Yes ☑ No
If "Yes," you **MUST attach Form 6198**. If "No," enter the loss on Form 1040, line 13, and on Schedule SE, line 2 (or line 5 of Form 1041 or Form 1041S).

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule C (Form 1040) 1987**

Part III Cost of Goods Sold and/or Operations (See Schedule C Instructions for Part III)

1 Inventory at beginning of year. (If different from last year's closing inventory, attach explanation.)	1	0
2 Purchases less cost of items withdrawn for personal use	2	3860
3 Cost of labor. (Do not include salary paid to yourself.)	3	0
4 Materials and supplies	4	0
5 Other costs	5	0
6 Add lines 1 through 5	6	3860
7 Less: Inventory at end of year	7	440
8 **Cost of goods sold and/or operations.** Subtract line 7 from line 6. Enter here and in Part I, line 2	8	3420

Part IV Codes for Principal Business or Professional Activity

Locate the major business category that best describes your activity (for example, Retail Trade, Services, etc.). Within the major category, select the activity code that identifies (or most closely identifies) the business or profession that is the principal source of your sales or receipts. **Enter this 4-digit code on line B on page 1 of Schedule C.** (**Note:** *If your principal source of income is from farming activities, you should file* **Schedule F** *(Form 1040), Farm Income and Expenses.)*

Construction

Code	
0018	Operative builders (building for own account)
	General contractors
0034	Residential building
0059	Nonresidential building
0075	Highway and street construction
3889	Other heavy construction (pipe laying, bridge construction, etc.)
	Building trade contractors, including repairs
0232	Plumbing, heating, air conditioning
0257	Painting and paper hanging
0273	Electrical work
0299	Masonry, dry wall, stone, tile
0414	Carpentering and flooring
0430	Roofing, siding, and sheet metal
0455	Concrete work
0471	Water well drilling
0885	Other building trade contractors (excavation, glazing, etc.)

Manufacturing, Including Printing and Publishing

Code	
0612	Bakeries selling at retail
0638	Other food products and beverages
0653	Textile mill products
0679	Apparel and other textile products
0695	Leather, footware, handbags, etc.
0810	Furniture and fixtures
0836	Lumber and other wood products
0851	Printing and publishing
0877	Paper and allied products
0893	Chemicals and allied products
1016	Rubber and plastics products
1032	Stone, clay, and glass products
1057	Primary metal industries
1073	Fabricated metal products
1099	Machinery and machine shops
1115	Electric and electronic equipment
1313	Transportation equipment
1339	Instruments and related products
1883	Other manufacturing industries

Mining and Mineral Extraction

Code	
1511	Metal mining
1537	Coal mining
1552	Oil and gas
1719	Quarrying and nonmetallic mining

Agricultural Services, Forestry, and Fishing

Code	
1917	Soil preparation services
1933	Crop services
1958	Veterinary services, including pets
1974	Livestock breeding
1990	Other animal services
2113	Farm labor and management services
2212	Horticulture and landscaping
2238	Forestry, except logging
0836	Logging
2279	Fishing, hunting, and trapping

Wholesale Trade—Selling Goods to Other Businesses, Government, or Institutions, etc.

Code	
	Durable goods, including machinery, equipment, wood, metals, etc.
2618	Selling for your own account
2634	Agent or broker for other firms—more than 50% of gross sales on commission
	Nondurable goods, including food, fiber, chemicals, etc.
2659	Selling for your own account
2675	Agent or broker for other firms—more than 50% of gross sales on commission

Retail Trade—Selling Goods to Individuals and Households

Code	
3012	Selling door-to-door, by telephone or party plan, or from mobile unit
3038	Catalog or mail order
3053	Vending machine selling
	Selling From Store, Showroom, or Other Fixed Location
	Food, beverages, and drugs
3079	Eating places (meals or snacks)
3095	Drinking places (alcoholic beverages)
3210	Grocery stores (general line)
0612	Bakeries selling at retail
3236	Other food stores (meat, produce, candy, etc.)
3251	Liquor stores
3277	Drug stores
	Automotive and service stations
3319	New car dealers (franchised)
3335	Used car dealers
3517	Other automotive dealers (motorcycles, recreational vehicles, etc.)
3533	Tires, accessories, and parts
3558	Gasoline service stations
	General merchandise, apparel, and furniture
3715	Variety stores
3731	Other general merchandise stores
3756	Shoe stores
3772	Men's and boys' clothing stores
3913	Women's ready-to-wear stores
3921	Women's accessory and specialty stores and furriers
3939	Family clothing stores
3954	Other apparel and accessory stores
3970	Furniture stores
3996	TV, audio, and electronics
3988	Computer and software stores
4119	Household appliance stores
4317	Other home furnishing stores (china, floor coverings, drapes, etc.)
4333	Music and record stores
	Building, hardware, and garden supply
4416	Building materials dealers
4432	Paint, glass, and wallpaper stores
4457	Hardware stores
4473	Nurseries and garden supply stores
	Other retail stores
4614	Used merchandise and antique stores (except used motor vehicle parts)
4630	Gift, novelty, and souvenir shops
4655	Florists
4671	Jewelry stores
4697	Sporting goods and bicycle shops
4812	Boat dealers
4838	Hobby, toy, and game shops
4853	Camera and photo supply stores
4879	Optical goods stores
4895	Luggage and leather goods stores
5017	Book stores, excluding newsstands
5033	Stationery stores
5058	Fabric and needlework stores
5074	Mobile home dealers
5090	Fuel dealers (except gasoline)
5884	Other retail stores

Real Estate, Insurance, Finance, and Related Services

Code	
5512	Real estate agents and managers
5538	Operators and lessors of buildings (except developers)
5553	Operators and lessors of other real property (except developers)
5710	Subdividers and developers, except cemeteries
5736	Insurance agents and services
5751	Security and commodity brokers, dealers, and investment services
5777	Other real estate, insurance, and financial activities

Transportation, Communications, Public Utilities, and Related Services

Code	
6114	Taxicabs
6312	Bus and limousine transportation
6338	Trucking (except trash collection)
6510	Trash collection without own dump
6536	Public warehousing
6551	Water transportation
6619	Air transportation
6635	Travel agents and tour operators
6650	Other transportation and related services
6676	Communication services
6692	Utilities, including dumps, snowplowing, road cleaning, etc.

Services (Providing Personal, Professional, and Business Services)

Code	
	Hotels and other lodging places
7096	Hotels, motels, and tourist homes
7211	Rooming and boarding houses
7237	Camps and camping parks
	Laundry and cleaning services
7419	Coin-operated laundries and dry cleaning
7435	Other laundry, dry cleaning, and garment services
7450	Carpet and upholstery cleaning
7476	Janitorial and related services (building, house, and window cleaning)
	Business and/or personal services
7617	Legal services (or lawyer)
7633	Income tax preparation
7658	Accounting and bookkeeping
7674	Engineering, surveying, and architectural
7690	Management, consulting, and public relations
7716	Advertising, except direct mail
7732	Employment agencies and personnel supply
7757	Computer and data processing, including repair and leasing
7773	Equipment rental and leasing (except computer or automotive)
7914	Investigative and protective services
7880	Other business services
	Personal services
8110	Beauty shops (or beautician)
8318	Barber shop (or barber)
8334	Photographic portrait studios
8516	Shoe repair and shine services
8532	Funeral services and crematories
8714	Child day care
8730	Teaching or tutoring
8755	Counseling (except health practitioners)
8771	Ministers and chaplains
6882	Other personal services
	Automotive services
8813	Automotive rental or leasing, without driver
8839	Parking, except valet
8854	General automotive repairs
8870	Specialized automotive repairs (brake, body repairs, paint, etc.)
8896	Other automotive services (wash, towing, etc.)
	Miscellaneous repair, except computers
9019	TV and audio equipment repair
9035	Other electrical equipment repair
9050	Reupholstery and furniture repair
2881	Other equipment repair
	Medical and health services
9217	Offices and clinics of medical doctors (MD's)
9233	Offices and clinics of dentists
9258	Osteopathic physicians and surgeons
9274	Chiropractors
9290	Optometrists
9415	Registered and practical nurses
9431	Other licensed health practitioners
9456	Dental laboratories
9472	Nursing and personal care facilities
9886	Other health services
	Amusement and recreational services
8557	Physical fitness facilities
9613	Videotape rental stores
9639	Motion picture theaters
9654	Other motion picture and TV film and tape activities
9670	Bowling alleys
9696	Professional sports and racing, including promoters and managers
9811	Theatrical performers, musicians, agents, producers, and related services
9837	Other amusement and recreational services

Code	
8888	Unable to classify

★U.S. GPO: 1987-183-094

"That completes Schedule C, and we can now proceed to the Form 1040 Schedule SE to determine your self-employment tax liability.

"On the top line we again record your name and social security number as we did on the Schedule C.

"Net profit or (loss) from farm income as a proprietorship or a partnership is posted on line 1. In your case, this line is ignored.

"On line 2 we total the income from line 32 of your self-employment Schedule C or from any non-farm partnership activities. Part II of the form does not apply in your case because your net non-farm profits were greater than $1,600, so we skip down to Part III.

"Since you have no income from farming operations, we insert a zero on line 7. We bring the value from Part I, line 2 down to line 8 and, on line 9, total the amounts from lines 7 and 8.

"On line 11a we insert the total wages you earned at the machine shop as reflected on the W-2 form. The purpose is to limit your social security tax liability to the first $42,000 of income. Subtracting your **employee** income of $38,375 from the $42,000 maximum, we find that for 1986 you're liable for self-employment taxes on only the first $3,625 of your self-employment income.

"Finally, we multiply the self-employment social security tax rate of 12.3% times the $3,625 to determine the amount of self-employment taxes for which you're liable. In this situation, $446."

SCHEDULE SE
(Form 1040)
Department of the Treasury
Internal Revenue Service (0)

Computation of Social Security Self-Employment Tax

▶ **See Instructions for Schedule SE (Form 1040).**

▶ **Attach to Form 1040.**

OMB No. 1545-0074
1987
Attachment Sequence No. **18**

Name of person with **self-employment** income (as shown on social security card): EDWARD E. ENTREPRENEUR

Social security number of person with **self-employment** income ▶ 831 99 7877

A If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner, AND you filed Form 4361, then DO NOT file Schedule SE. Instead, write "Exempt-Form 4361" on Form 1040, line 48. However, if you filed Form 4361, but have $400 or more of other earnings subject to self-employment tax, continue with Part I and check here ▶ ☐

B If you filed Form 4029 and have received IRS approval, DO NOT file Schedule SE. Write "Exempt-Form 4029" on Form 1040, line 48.

C If your only earnings subject to self-employment tax are wages from an electing church or church-controlled organization that is exempt from employer social security taxes and you are not a minister or a member of a religious order, skip lines 1–8. Enter zero on line 9. Continue with line 11a.

Part I Regular Computation of Net Earnings From Self-Employment

1	Net farm profit (or loss) from Schedule F (Form 1040), line 37, and farm partnerships, Schedule K-1 (Form 1065), line 14a	1		
2	Net profit (or loss) from Schedule C (Form 1040), line 31, and Schedule K-1 (Form 1065), line 14a (other than farming). (See Instructions for other income to report.) Employees of an electing church or church-controlled organization DO NOT enter your Form W-2 wages on line 2. See the Instructions	2	2885	

Part II Optional Computation of Net Earnings From Self-Employment (See "Who Can Use Schedule SE" in the Instructions.)

See Instructions for limitations. Generally, this part may be used **only** if you meet any of the following tests:

A Your **gross** farm income[1] was not more than $2,400; **or**

B Your **gross** farm income[1] was more than $2,400 and your **net** farm profits[2] were **less** than $1,600; **or**

C Your **net** nonfarm profits[3] were less than $1,600 and your **net** nonfarm profits[3] were also **less** than two-thirds (⅔) of your **gross** nonfarm income.[4]

Note: *If line 2 above is two-thirds (⅔) or more of your gross nonfarm income[4], or, if line 2 is $1,600 or more, you may **not** use the optional method.*

[1] From Schedule F (Form 1040), line 12, and Schedule K-1 (Form 1065), line 14b.

[2] From Schedule F (Form 1040), line 37, and Schedule K-1 (Form 1065), line 14a.

[3] From Schedule C (Form 1040), line 31, and Schedule K-1 (Form 1065), line 14a.

[4] From Schedule C (Form 1040), line 5, and Schedule K-1 (Form 1065), line 14c.

3	Maximum income for optional methods	3	$1,600	00
4	Farm Optional Method—If you meet test A or B above, enter the **smaller of:** two-thirds (⅔) of gross farm income from Schedule F (Form 1040), line 12, and farm partnerships, Schedule K-1 (Form 1065), line 14b; **or** $1,600	4		
5	Subtract line 4 from line 3	5		
6	Nonfarm Optional Method—If you meet test C above, enter the **smallest of:** two-thirds (⅔) of gross nonfarm income from Schedule C (Form 1040), line 5, and Schedule K-1 (Form 1065), line 14c (other than farming); **or** $1,600; **or,** if you elected the farm optional method, the amount on line 5	6		

Part III Computation of Social Security Self-Employment Tax

7	Enter the amount from Part I, line 1, **or,** if you elected the farm optional method, Part II, line 4	7	0	
8	Enter the amount from Part I, line 2, **or,** if you elected the nonfarm optional method, Part II, line 6	8	2885	
9	Add lines 7 and 8. If less than $400, do not file this schedule. (Exception: If you are an employee of an electing church or church-controlled organization and the total of lines 7 and 8 is less than $400, enter zero and complete the rest of this schedule.)	9	2885	
10	The largest amount of combined wages and self-employment earnings subject to social security or railroad retirement tax (tier 1) for 1987 is	10	$43,800	00
11a	Total social security wages and tips from Forms W-2 and railroad retirement compensation (tier 1). **Note:** *Medicare qualified government employees whose wages are only subject to the 1.45% medicare (hospital insurance benefits) tax and employees of certain church or church-controlled organizations should **not** include those wages on this line. (See Instructions.)* — 11a: 42000			
b	Unreported tips subject to social security tax from Form 4137, line 9, or to railroad retirement tax (tier 1) — 11b:			
c	Add lines 11a and 11b	11c	42000	
12a	Subtract line 11c from line 10. (If zero or less, enter zero.)	12a	1800	
b	Enter your medicare qualified government wages if you are required to use the worksheet in Part III of the Instructions — 12b:			
c	Enter your Form W-2 wages of $100 or more from an electing church or church-controlled organization — 12c:			
d	Add lines 9 and 12c	12d	2885	
13	Enter the smaller of line 12a or line 12d	13	1800	
	If line 13 is $43,800, enter $5,387.40 on line 14. Otherwise, multiply line 13 by .123 and enter the result on line 14		×.123	
14	Self-employment tax. Enter this amount on Form 1040, line 48	14	221	

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule SE (Form 1040) 1987**

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"It always burns me a little when I have to pay self-employment tax at a 12.3% rate," Ed remarked. "As an employee, I only have to pay into Social Security at the rate of 7.15%."

"True," Alice responded. "But remember, your 7.15% contribution this past year was accompanied by a 7.15% contribution from your employer, for a total of 14.3%. That additional 7.15% represents an amount which he could have paid to you, **without reducing his profit,** if he didn't have to pay it to the Social Security Administration.

"The SECA tax -- for Self Employment Contribution Act -- was passed by Congress several years ago to bring the self-employed under the Social Security system.

"I should also point out that some changes are occurring in the social security tax rates over the next few years. In 1988, both the employer's and employee's rates are 7.51%, a combined total of 15.02%. And, the maximum income taxed under social security has been raised to $45,000.

"Now it's time to address the Form 1040, U.S. Individual Income Tax Return. IRS Publication 17, **Your Federal Income Tax** is an excellent reference for individuals as they prepare their personal tax returns.

"First, we insert your income from your employment on line 7. Next, we want to show your interest and dividend income on line 8. Do you have those records?"

"Yes, I do," Ed replied. "I've already prepared Schedule B."

Name(s) as shown on Form 1040 (Do not enter name and social security number if shown on other side) Your social security number

Schedule B—Interest and Dividend Income

Attachment Sequence No 08

Part I Interest Income

(See Instructions on pages 9 and 24)

Also complete Part III

Note: If you received a Form 1099-INT or Form 1099-OID from a brokerage firm, enter the firm's name and the total interest shown on that form

If you received more than $400 in taxable interest income, you must complete Part I and list ALL interest received. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 24.

Interest Income		Amount
1 Interest income from seller-financed mortgages. (See Instructions and list name of payer.) ▶	1	
2 Other interest income (list name of payer) ▶		
LAST CHANCE S & L		432
WATERGATE CORP. BONDS		312
U.S. TREASURY BILLS	2	266
3 Add the amounts on lines 1 and 2 Enter the total here and on Form 1040, line 8. ▶	3	1000

Part II Dividend Income

(See Instructions on pages 10 [illegible] 25)

Also complete Part III

Note: If you received a Form 1099-DIV from a brokerage firm, enter the firm's name and the total dividends shown on that form

If you received more than $400 in gross dividends and/or other distributions on stock, complete Part II. If you received, as a nominee, dividends that actually belong to another person, see page 25.

Dividend Income		Amount
4 Dividend income (list name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶	4	
5 Add the amounts on line 4 Enter the total here	5	
6 Capital gain distributions Enter here and on line 13, Schedule D *	6	
7 Nontaxable distributions (See Schedule D Instructions for adjustment to basis.)	7	
8 Add the amounts on lines 6 and 7 Enter the total here	8	
9 Subtract line 8 from line 5. Enter the result here and on Form 1040, line 10 ▶	9	

If you received capital gain distributions but do not need Schedule D to report any other gains or losses or to figure your tax (see the **Tax Tip under **Capital gain distributions** on page 10) enter your capital gain distributions on Form 1040 line 14 Write "CGD" on the dotted line to the left of line 14*

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 25)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.

	Yes	No
10 At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 25 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		✓
If "Yes," enter the name of the foreign country ▶		
11 Were you the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not you have any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926		✓

For Paperwork Reduction Act Notice, see Form 1040 Instructions. ☆U.S. GOVERNMENT PRINTING OFFICE : 1987-183-090 66154 **Schedule B (Form 1040) 1987**

"Fine. Now we post the Schedule C income on line 13 and, on line 22, we total the amounts on lines 7 through 21. After subtracting any **Adjustments to Income,** lines 23 through 28, we enter the remainder on line 30.

Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **1987** (0)

For the year Jan.–Dec. 31, 1987, or other tax year beginning , 1987, ending , 19 OMB No. 1545-0074

Label

Use IRS label. Otherwise, please print or type.

Your first name and initial (if joint return, also give spouse's name and initial) Last name
EDWARD E. ENTREPRENEUR

Your social security number 831 99 7877

Present home address (number and street or rural route) (If you have a P.O. Box, see page 6 of Instructions.)
8429 TALL OAK CURVE

Spouse's social security number

City, town or post office, state, and ZIP code
HOMETOWN, MN 55499

For Privacy Act and Paperwork Reduction Act Notice, see Instructions.

Presidential Election Campaign
Do you want $1 to go to this fund? ☐ Yes ☑ No
If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No
Note: *Checking "Yes" will not change your tax or reduce your refund.*

Filing Status

Check only one box.

1 ☑ Single
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security no. above and full name here. ______
4 ☐ Head of household (with qualifying person). (See page 7 of Instructions.) If the qualifying person is your child but not your dependent, enter child's name here ______
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 7 of Instructions.)

Exemptions

(See Instructions on page 7.)

Caution: If you can be claimed as a dependent on another person's tax return (such as your parents' return), do not check box 6a. But be sure to check the box on line 32b on page 2.

6a ☑ Yourself 6b ☐ Spouse

No. of boxes checked on 6a and 6b ▶ 1

c Dependents

(1) Name (first, initial, and last name)	(2) Check if under age 5	(3) If age 5 or over, dependent's social security number	(4) Relationship	(5) No. of months lived in your home in 1987

If more than 7 dependents, see Instructions on page 7.

No. of children on 6c who lived with you ▶
No. of children on 6c who didn't live with you due to divorce or separation ▶
No. of parents listed on 6c ▶
No. of other dependents listed on 6c ▶

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed (also complete line 35)

Add numbers entered in boxes above ▶ 1

Income

Please attach Copy B of your Forms W-2, W-2G, and W-2P here.

If you do not have a W-2, see page 6 of Instructions.

Please attach check or money order here.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*		7	42000
8	**Taxable** interest income *(also attach Schedule B if over $400)*		8	1000
9	**Tax-exempt** interest income (see page 10). DON'T include on line 8	9		
10	Dividend income *(also attach Schedule B if over $400)*		10	
11	Taxable refunds of state and local income taxes, if any, from worksheet on page 11 of Instructions		11	
12	Alimony received		12	
13	Business income or (loss) *(attach Schedule C)*		13	2885
14	Capital gain or (loss) *(attach Schedule D)*		14	
15	Other gains or (losses) *(attach Form 4797)*		15	
16a	Pensions, IRA distributions, annuities, and rollovers. Total received	16a		
b	Taxable amount (see page 11)		16b	
17	Rents, royalties, partnerships, estates, trusts, etc. *(attach Schedule E)*		17	
18	Farm income or (loss) *(attach Schedule F)*		18	
19	Unemployment compensation (insurance) (see page 11)		19	
20a	Social security benefits (see page 12)	20a		
b	Taxable amount, if any, from the worksheet on page 12		20b	
21	Other income (list type and amount—see page 12)		21	
22	Add the amounts shown in the far right column for lines 7, 8, and 10–21. This is your **total income** ▶		22	45885

Adjustments to Income

(See Instructions on page 12.)

23	Reimbursed employee business expenses from Form 2106	23		
24a	Your IRA deduction, from applicable worksheet on page 13 or 14	24a		
b	Spouse's IRA deduction, from applicable worksheet on page 13 or 14	24b		
25	Self-employed health insurance deduction, from worksheet on page 14	25		
26	Keogh retirement plan and self-employed SEP deduction	26		
27	Penalty on early withdrawal of savings	27		
28	Alimony paid (recipient's last name ______ and social security no. ______)	28		
29	Add lines 23 through 28. These are your **total adjustments** ▶		29	

Adjusted Gross Income

30 Subtract line 29 from line 22. This is your **adjusted gross income.** *If this line is less than $15,432 and a child lived with you, see "Earned Income Credit" (line 56) on page 18 of the Instructions. If you want IRS to figure your tax, see page 15 of the Instructions* ▶ 30 45885

"Turning the page, we transfer the amount on line 30 to line 31. Next we need the list of personal deductions."

Ed smiled as he said, "Schedule A is also finished."

SCHEDULES A&B
(Form 1040)
Department of the Treasury
Internal Revenue Service (O)

Schedule A—Itemized Deductions

(Schedule B is on back)

➤ Attach to Form 1040. ➤ See Instructions for Schedules A and B (Form 1040).

OMB No. 1545-0074
1987
Attachment Sequence No. **07**

Name(s) as shown on Form 1040: EDWARD E. ENTREPRENEUR

Your social security number: 831 99 7877

Medical and Dental Expenses **(Do not include expenses reimbursed or paid by others.)** (See Instructions on page 21.)	1a	Prescription medicines and drugs, insulin, doctors, dentists, nurses, hospitals, insurance premiums you paid for medical and dental care, etc.	1a			
	b	Transportation and lodging	1b			
	c	Other (list—include hearing aids, dentures, eyeglasses, etc.) ➤	1c			
	2	Add lines 1a through 1c, and enter the total here	2			
	3	Multiply the amount on Form 1040, line 31, by 7.5% (.075)	3			
	4	Subtract line 3 from line 2. If zero or less, enter -0-. **Total** medical and dental ➤			4	
Taxes You Paid (See Instructions on page 22.)		**Note:** Sales taxes are no longer deductible.				
	5	State and local income taxes	5	2872		
	6	Real estate taxes	6	831		
	7	Other taxes (list—include personal property taxes) ➤ AUTOMOBILE	7	291		
	8	Add the amounts on lines 5 through 7. Enter the total here. **Total** taxes ➤			8	3994
Interest You Paid (See Instructions on page 22.)		**Note:** If you borrowed any new amounts against your home **after** 8/16/86 and at any time in 1987 the total of **all** your mortgage debts was more than what you paid for your home plus improvements, attach Form 8598 and check here ➤ ☐				
	9a	Deductible home mortgage interest you paid to financial institutions (report deductible points on line 10)	9a	1327		
	b	Deductible home mortgage interest you paid to individuals (show that person's name and address) ➤	9b			
	10	Deductible points	10			
	11	Deductible investment interest	11			
	12a	Personal interest you paid (see page 22) 12a				
	b	Multiply the amount on line 12a by 65% (.65). Enter the result	12b			
	13	Add the amounts on lines 9a through 11, and 12b. Enter the total here. **Total** interest ➤			13	1327
Contributions You Made (See Instructions on page 23.)	14a	Cash contributions. (If you gave $3,000 or more to any one organization, report those contributions on line 14b.)	14a	600		
	b	Cash contributions totaling $3,000 or more to any one organization. (Show to whom you gave and how much you gave.) ➤	14b			
	15	Other than cash. (You must attach Form 8283 if over $500.)	15			
	16	Carryover from prior year	16			
	17	Add the amounts on lines 14a through 16. Enter the total here. **Total** contributions ➤			17	600
Casualty and Theft Losses	18	Casualty or theft loss(es) (attach Form 4684). (See page 23 of the Instructions.) ➤			18	
Moving Expenses	19	Moving expenses (attach Form 3903 or 3903F). (See page 24 of the Instructions.) ➤			19	
Miscellaneous Deductions Subject to 2% AGI Limit (See Instructions on page 24.)	20	Unreimbursed employee business expenses (attach Form 2106)	20			
	21	Other expenses (list type and amount) ➤	21			
	22	Add the amounts on lines 20 and 21. Enter the total.	22			
	23	Multiply the amount on Form 1040, line 31, by 2% (.02). Enter the result here	23			
	24	Subtract line 23 from line 22. Enter the result (but not less than zero) ➤			24	
Other Miscellaneous Deductions	25	Miscellaneous deductions not subject to 2% AGI limit (see page 24). (List type and amount.) ➤			25	
Total Itemized Deductions	26	Add the amounts on lines 4, 8, 13, 17, 18, 19, 24, and 25. Enter the total here and on Form 1040, line 33a. ➤			26	5921

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule A (Form 1040) 1987

"You're way ahead of me, aren't you! We transfer your deductions from Schedule A to line 33a, subtract your $1,900 personal exemption, and arrive at your taxable income of $38,064 on line 36. At this point, all we have to do is look up the income tax from the Tax Table."

"Say," Ed interjected, "while we're on this subject, there's another item which I've never fully understood. When Bob, your bookkeeper, says I'm in the 35% tax bracket, is he saying that I have to pay 35% of my taxable income to the IRS?"

"No," laughed Alice, "it only **seems** that way. What he is saying is that, when you're in that bracket, you'll pay 35 cents income tax on the **next** dollar of taxable income, or save 35 cents on the **next** dollar of deductions. We sometimes call that the MARGINAL Tax Rate. Here, look at this portion of the Tax Table."

If line 36 (taxable income) is --		And you are --			
At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household
			Your tax is --		
37,800	37,850	9,093	6,831	9,784	7,501
37,850	37,900	9,110	6,845	9,801	7,515
37,900	37,950	9,128	6.859	9,819	7,529
37,950	38,000	9,145	6,873	9,836	7,543
38,000	38,050	9,163	6,887	9,854	7,559
38,050	38,100	9,180	6,901	9,871	7,576
38,100	38,150	9,198	6,915	9,889	7,594
38,150	38,200	9,215	6,929	9,906	7,611
38,200	38,250	9,233	6,943	9,924	7,629

"As a single person with a taxable income of $38,064, your income from the Tax Table is $9,180.

"If we look back to $38,000 we find the tax is $9,163. When we look ahead to $38,100 we find the tax is $9,198. Subtracting $9,163 from $9,198, we find the difference is $35.

In other words, a $100 increase in taxable income caused a $35 increase in taxes. And, $35 divided by $100 equals 0.35 or, expressed as a percentage, 35%.

"Hey!" Ed exclaimed. "That was easy. I was ashamed to tell Bob I didn't understand what he was saying."

"Please remember," Alice responded, "we'd much rather deal with an inquisitive client than one who won't acknowledge a little ignorance. If we presume that a client understands something which he really doesn't, it can lead to serious misunderstandings -- and **may** cost him a lot of money. Whenever you have doubt, **ask!** O.K.?"

"O.K.!"

"Now, to finish this part, we insert your income tax from tax rate schedule on line 37 of the 1040 and carry this amount down to line 39, and we're done with the tax computation.

Form 1040 (1987) Page **2**

Tax Computation	31	Amount from line 30 (adjusted gross income)		31	45885
	32a	Check if: ☐ **You** were 65 or over ☐ Blind; ☐ **Spouse** was 65 or over ☐ Blind. Add the number of boxes checked and enter the total here ▶	32a		
	b	If you can be claimed as a dependent on another person's return, check here ▶	32b ☐		
	c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 15 and check here ▶	32c ☐		
	33a	**Itemized deductions.** See page 15 to see if you should itemize. If you don't itemize, enter zero. If you do itemize, attach Schedule A, enter the amount from Schedule A, line 26, **AND** skip line 33b		33a	5921
Caution: If you checked any box on line 32a, b, or c **and** you don't itemize, see page 16 for the amount to enter on line 33b. ◀	b	**Standard deduction.** Read **Caution** to left. If it applies, see page 16 for the amount to enter. If **Caution** doesn't apply and your filing status from page 1 is: { Single or Head of household, enter $2,540 Married filing jointly or Qualifying widow(er), enter $3,760 Married filing separately, enter $1,880 }		33b	
	34	Subtract line 33a **or** 33b, whichever applies, from line 31. Enter the result here		34	39964
	35	Multiply $1,900 by the total number of exemptions claimed on line 6e or see chart on page 16		35	1900
	36	**Taxable income.** Subtract line 35 from line 34. Enter the result (but not less than zero)		36	38064
		Caution: If under age 14 and you have more than $1,000 of investment income, check here ▶☐ and see page 16 to see if you have to use Form 8615 to figure your tax.			
	37	Enter tax. Check if from ☑ Tax Table, ☐ Tax Rate Schedules, ☐ Schedule D, or ☐ Form 8615		37	9180
	38	Additional taxes (see page 16). Check if from ☐ Form 4970 or ☐ Form 4972		38	
	39	Add lines 37 and 38. Enter the total ▶		39	9180
Credits (See Instructions on page 17.)	40	Credit for child and dependent care expenses *(attach Form 2441)*	40		
	41	Credit for the elderly or for the permanently and totally disabled *(attach Schedule R)*	41		
	42	Add lines 40 and 41. Enter the total		42	
	43	Subtract line 42 from line 39. Enter the result (but not less than zero)		43	9180
	44	Foreign tax credit *(attach Form 1116)*	44		
	45	General business credit. Check if from ☐ Form 3800, ☐ Form 3468, ☐ Form 5884, ☐ Form 6478, ☐ Form 6765, or ☐ Form 8586	45		
	46	Add lines 44 and 45. Enter the total		46	
	47	Subtract line 46 from line 43. Enter the result (but not less than zero) ▶		47	9180
Other Taxes (Including Advance EIC Payments)	48	Self-employment tax *(attach Schedule SE)*		48	221
	49	Alternative minimum tax *(attach Form 6251)*		49	
	50	Tax from recapture of investment credit *(attach Form 4255)*		50	
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*		51	
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*		52	
	53	Add lines 47 through 52. This is your **total tax** ▶		53	9401
Payments Attach Forms W-2, W-2G, and W-2P to front.	54	Federal income tax withheld (including tax shown on Form(s) 1099)	54 9078		
	55	1987 estimated tax payments and amount applied from 1986 return	55 1000		
	56	Earned income credit (see page 18)	56		
	57	Amount paid with Form 4868 (extension request)	57		
	58	Excess social security tax and RRTA tax withheld (see page 19)	58		
	59	Credit for Federal tax on gasoline and special fuels *(attach Form 4136)*	59		
	60	Regulated investment company credit *(attach Form 2439)*	60		
	61	Add lines 54 through 60. These are your **total payments** ▶		61	10078
Refund or Amount You Owe	62	If line 61 is larger than line 53, enter amount **OVERPAID** ▶		62	677
	63	Amount of line 62 to be **REFUNDED TO YOU** ▶		63	677
	64	Amount of line 62 to be applied to your 1988 estimated tax ▶	64		
	65	If line 53 is larger than line 61, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1987 Form 1040" on it Check ▶ ☐ if Form 2210 (2210F) is attached. See page 20. **Penalty:** $		65	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature ▶ Edward E. Entrepreneur	Date 1-28-88	Your occupation
Spouse's signature (if joint return, BOTH must sign) ▶	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶ Alice Accountant	Date 1-25-88	Check if self-employed ☑	Preparer's social security no. 835 35 3535
Firm's name (or yours if self-employed) and address ▶ ALICE ACCOUNTANT 6543 W SOYBEAN, HOMETOWN, MN		E.I. No.	
		ZIP code 55497	

★U.S.GPO:1987-0-183-082

7415 5:05

"Now, completing the remainder of the 1040 should be rather simple.

"We move to the Other Taxes section and insert the Self-Employment tax on line 48 and add it, along with any other taxes, to the amount on line 47, and insert the sum on line 53. This is the Total Tax. Any questions?"

"Yes! I've always wondered what that legend on line 49 really means. What is an Alternative Minimum Tax?"

"Well, Ed, there are a number of special tax deductions and exclusions which are called **Tax Preference Items** -- things such as accelerated depreciation on certain real property or leased personal property, depletion, incentive stock options and others. For a number of years there have been two special taxes, **Minimum Tax** and **Alternative Minimum Tax** which have served to assure that individuals who have substantial Tax Preference Items still pay **some** taxes. Beginning with 1983, the Minimum Tax applies only to taxable corporations and no longer affects individuals. On the other hand, the Alternative Minimum Tax applies to **all** taxpayers other than corporations.

"Fortunately, none of these items affect you. However, it makes sense to recognize that they exist. Further information can be found in IRS Publication 909, **Alternative Minimum Tax.**

"Now we can finish the Form 1040. All that remains is the section dealing with how you're going to pay your $9,401 tax bill."

Smiling wryly, Ed said, "I think we've got that one covered. Last summer, Bob reviewed my withholdings from the machine shop and noticed that they were more than I needed. He determined that the excess would cover my May earnings. Then, in September, he had me file Form 1040-ES, Estimated Tax for Individuals, and send an estimated tax payment of $1,000 to the IRS to cover earnings from June through August. Later, when he learned that I'd purchased the equipment in November, he said there was no need to send any additional funds because of the Section 179 deduction. Now I understand what he was talking about."

"Good. As Bob undoubtedly told you, the IRS expects **progress payments** on your taxes when you're self-employed, just as your withholdings as an employee are handled every pay day. In other words, it's a pay-as-you-go system. We'll continue to watch the estimated tax requirements as each month goes by. In the meantime, if you're looking for additional information on this subject, refer to IRS Publication 505, **Tax Withholding and Estimated Tax.**

"To finish up, then, we insert the $9,078 withheld by your employer on line 54, and the $1,000 you paid in estimated taxes on line 55, and add them together on line 61 for a total of $10,078. While we've overestimated your taxes slightly, it's not too bad. With all this new knowledge you'll be better able to work with Bob and me for future tax planning to avoid excessive withholdings or payments on estimated taxes. No sense making interest-free loans to the government, is there?"

"I used to do that quite regularly, thinking it was something of a savings plan. But now that I have a better appreciation of the business world, future savings efforts will focus on plans where I'm getting some interest! And, that's the very reason why I want that $677 overpayment refunded now. I'll make an estimated tax payment on April 15, when it's required."

"Now, to finish this part, we insert your income tax from tax rate schedule on line 37 of the 1040 and carry this amount down to line 39, and we're done with the tax computation.

Form 1040 (1987) Page 2

Tax Computation	31	Amount from line 30 (adjusted gross income)			31	45885
	32a	Check if: ☐ **You** were 65 or over ☐ Blind; ☐ **Spouse** was 65 or over ☐ Blind. Add the number of boxes checked and enter the total here ▶	32a			
	b	If you can be claimed as a dependent on another person's return, check here ▶	32b	☐		
	c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 15 and check here ▶	32c	☐		
	33a	**Itemized deductions.** See page 15 to see if you should itemize. If you don't itemize, enter zero. If you do itemize, attach Schedule A, enter the amount from Schedule A, line 26, **AND** skip line 33b			33a	5921
Caution: ← If you checked any box on line 32a, b, or c **and** you don't itemize, see page 16 for the amount to enter on line 33b.	b	**Standard deduction.** Read **Caution** to left. If it applies, see page 16 for the amount to enter. If **Caution** doesn't apply and your filing status from page 1 is: Single or Head of household, enter $2,540; Married filing jointly or Qualifying widow(er), enter $3,760; Married filing separately, enter $1,880			33b	
	34	Subtract line 33a **or** 33b, whichever applies, from line 31. Enter the result here			34	39964
	35	Multiply $1,900 by the total number of exemptions claimed on line 6e or see chart on page 16			35	1900
	36	**Taxable income.** Subtract line 35 from line 34. Enter the result (but not less than zero) **Caution:** If under age 14 and you have more than $1,000 of investment income, check here ▶☐ and see page 16 to see if you have to use Form 8615 to figure your tax.			36	38064
	37	Enter tax. Check if from ☑ Tax Table, ☐ Tax Rate Schedules, ☐ Schedule D, or ☐ Form 8615			37	9180
	38	Additional taxes (see page 16). Check if from ☐ Form 4970 or ☐ Form 4972			38	
	39	Add lines 37 and 38. Enter the total ▶			39	9180
Credits (See Instructions on page 17.)	40	Credit for child and dependent care expenses *(attach Form 2441)*	40			
	41	Credit for the elderly or for the permanently and totally disabled *(attach Schedule R)*	41			
	42	Add lines 40 and 41. Enter the total			42	
	43	Subtract line 42 from line 39. Enter the result (but not less than zero)			43	9180
	44	Foreign tax credit *(attach Form 1116)*	44			
	45	General business credit. Check if from ☐ Form 3800, ☐ Form 3468, ☐ Form 5884, ☐ Form 6478, ☐ Form 6765, or ☐ Form 8586	45			
	46	Add lines 44 and 45. Enter the total			46	
	47	Subtract line 46 from line 43. Enter the result (but not less than zero) ▶			47	9180
Other Taxes (Including Advance EIC Payments)	48	Self-employment tax *(attach Schedule SE)*			48	221
	49	Alternative minimum tax *(attach Form 6251)*			49	
	50	Tax from recapture of investment credit *(attach Form 4255)*			50	
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*			51	
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*			52	
	53	Add lines 47 through 52. This is your **total tax** ▶			53	9401
Payments Attach Forms W-2, W-2G, and W-2P to front	54	Federal income tax withheld (including tax shown on Form(s) 1099)	54	9078		
	55	1987 estimated tax payments and amount applied from 1986 return	55	1000		
	56	Earned income credit (see page 18)	56			
	57	Amount paid with Form 4868 (extension request)	57			
	58	Excess social security tax and RRTA tax withheld (see page 19)	58			
	59	Credit for Federal tax on gasoline and special fuels *(attach Form 4136)*	59			
	60	Regulated investment company credit *(attach Form 2439)*	60			
	61	Add lines 54 through 60. These are your **total payments** ▶			61	10078
Refund or Amount You Owe	62	If line 61 is larger than line 53, enter amount **OVERPAID** ▶			62	677
	63	Amount of line 62 to be **REFUNDED TO YOU** ▶			63	677
	64	Amount of line 62 to be applied to your 1988 estimated tax ▶	64			
	65	If line 53 is larger than line 61, enter **AMOUNT YOU OWE.** Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number, daytime phone number, and "1987 Form 1040" on it Check ▶ ☐ if Form 2210 (2210F) is attached. See page 20. **Penalty:** $			65	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature ▶ Edward E. Entrepreneur	Date 1-28-88	Your occupation
Spouse's signature (if joint return, BOTH must sign) ▶	Date	Spouse's occupation

Paid Preparer's Use Only

Preparer's signature ▶ Alice Accountant	Date 1-25-88	Check if self-employed ☑	Preparer's social security no. 835 35 3535
Firm's name (or yours if self-employed) and address ▶ ALICE ACCOUNTANT 6543 W SOYBEAN, HOMETOWN, MN		E.I. No.	
		ZIP code	55497

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Ed stretched and leaned back in his chair. His brow was furrowed, indicating deep thought. He finally spoke.

"Alice, several people have approached me with the idea of further expanding my business -- such as taking in partners or becoming a corporation. While I can readily understand the value of pooling capital and/or talent in order to grow, I don't know what differences might exist with respect to accounting and taxes. Without going into a lot of detail at this point in time, would you outline the important aspects I would encounter in either of these two situations?"

"Ed," she replied, "you can certainly ask big questions with just a few words. But, with the understanding that this is merely an overview, I can give you some guidelines.

"First of all, the need to maintain comprehensive, reliable books remains the same. As long as you continue to be as thorough and serious as you are now, you shouldn't encounter any major problems.

"As far as tax returns are concerned, let's look at partnerships first.

"As a general rule, a partnership is **not** considered a taxpayer. It files an **information** return on Form 1065, U.S. Partnership Return of Income. This return reflects the business activities of the partnership, and further itemizes how the profits or losses, together with any special tax credits or liabilities, are distributed among the partners.

"As a part of their personal Form 1040 tax returns, each partner includes the necessary schedules to reflect the individual shares of profit or loss and other tax benefits or liabilities. This share of profit/loss is reported on Form 1040 Schedule E, Supplemental Income Schedule, and self-employment taxes on any salaries taken, together with the partnership profit/loss, are combined on Form 1040 Schedule SE. The proportionate share of capital gains/losses are reported on Schedule D, Capital Gains and Losses and interest and dividend income on Schedule B, Interest and Dividend Income. A key item of importance is that the partners are personally liable for the income taxes on their respective shares of the company's income **even though that income may not have been distributed to them!**

"We can take a few moments and do a rough draft of a typical partnership tax return, if you wish, Ed."

"That would really help, just to give me some insight. Take my proprietorship's data and set it up as if it were a partnership but, for the moment, let's keep it simple -- please!"

Chuckling at Ed's plaintive request, Alice took out a separate set of forms. "We'll call it Widget Manufacturing Company and assume that it's obtained the necessary tax identification numbers. Understand also that, if you had started a proprietorship, and then converted to a partnership, you'd have to file a Schedule C for the period during which you were a proprietorship, and then file a 1065 for the remainder of the tax year during which the partnership existed."

Alice began extracting data from his Schedule C and inserting it on the appropriate lines of the partnership return.

"You'll note," she commented as she went along, "that the amounts are the same, although some of the line numbers may be different. For instance, line 18 is the same $24,780 as line 5 on your Schedule C. Cost of Goods Sold is computed in Schedule A, on the reverse side of Form 1065, in the same manners as Part III of your Schedule C.

"For sake of this example, we'll assume that you and Paul Partner have entered into an agreement by which he received a 25% interest in the partnership's operations in return for a cash contribution of $2,000. I will presume that your lawyer has formalized the agreement so that your respective interests are clearly stated.

"Further, we'll assume that the $4,000 in draw which you took from your proprietorship is treated as guaranteed payments, **salaries,** of $2,750 and $1,250 to you and Paul, respectively.

"Since they ran out of lines on the front page, they ask that you complete a separate schedule for the **other** expenses, such as commissions, legal/accounting services, tools and supplies, for a total of $2,245.

"The total of the expenses are the same as we find on your Schedule C, with two exceptions. One is the $4,000 guaranteed payments. The other is the $10,000 Sec. 179 deduction. For a partnership we report this amount on Schedule K, which is part of the 1065 return."

Form **1065**

Department of the Treasury
Internal Revenue Service

U.S. Partnership Return of Income

▶ For Paperwork Reduction Act Notice, see Form 1065 Instructions.

For calendar year 1987, or fiscal year beginning ______, 1987, and ending ______, 19__

OMB No. 1545-0099

1987

A Principal business activity: MANUFACTURING
B Principal product or service: MEDICAL INSTR.
C Business code number: 3400

Use IRS label. Otherwise, please print or type.
Name: WIDGET MANUFACTURING CO
Number and street (or P.O. Box number if mail is not delivered to street address): 8964 INDUSTRIAL ROAD
City or town, state, and ZIP code: HOMETOWN, MN 55498

D Employer identification number: 41-8357312
E Date business started: MAY 1987
F Enter total assets at end of tax year: $ 17668

G Check accounting method: (1) ☐ Cash (2) ☒ Accrual (3) ☐ Other
H Check applicable boxes: (1) ☐ Final return (2) ☐ Change in address
(3) ☐ Amended return

I Number of partners in this partnership ▶ 2

		Yes	No
J	Is this partnership a limited partnership (see the Instructions)?		✓
K	Is this partnership a partner in another partnership?		✓
L	Are any partners in this partnership also partnerships?		✓
M	Does the partnership meet all the requirements shown in the Instructions for **Question M**?		✓
N	Was there a distribution of property or a transfer (for example, by sale or death) of a partnership interest during the tax year? If "Yes," see the Instructions concerning an election to adjust the basis of the partnership's assets under section 754		✓
O	At any time during the tax year, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See the Instructions for exceptions and filing requirements for Form TD F 90-22.1.) If "Yes," write the name of the foreign country. ▶		✓
P	Was the partnership the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the partnership or any partner has any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926		✓
Q	Was this partnership in operation at the end of 1987?	✓	

R Number of months in 1987 that this partnership was in operation ▶ 8
S Check this box if the partnership has filed or is required to file Form 8264, Application for Registration of a Tax Shelter ☐
T Check this box if this is a partnership subject to the consolidated partnership audit procedures of TEFRA. (See page 7 of the Instructions.) ☐

Caution: *Include* **only** *trade or business income and expenses on lines 1a–21 below. See the instructions for more information.*

Income

1a	Gross receipts or sales $ 28500 1b Minus returns and allowances $ 300 Balance ▶	1c	28200
2	Cost of goods sold and/or operations (Schedule A, line 7)	2	3420
3	Gross profit (subtract line 2 from line 1c)	3	24780
4	Ordinary income (loss) from other partnerships and fiduciaries (attach schedule)	4	
5	Net farm profit (loss) (attach Schedule F (Form 1040))	5	
6	Net gain (loss) (Form 4797, line 18)	6	
7	Other income (loss)	7	
8	**TOTAL** income (loss) (combine lines 3 through 7)	8	24780

Deductions *(see instructions for limitations)*

9a	Salaries and wages (other than to partners) $ ______ 9b Minus jobs credit $ ______ Balance ▶	9c	
10	Guaranteed payments to partners	10	4000
11	Rent	11	7075
12	Deductible interest expense not claimed elsewhere on return (see Instructions)	12	475
13	Taxes	13	
14	Bad debts	14	
15	Repairs	15	
16a	Depreciation from Form 4562 (attach Form 4562) $ ______ 16b Minus depreciation claimed on Schedule A and elsewhere on return $ ______ Balance ▶	16c	2100
17	Depletion (**Do not deduct oil and gas depletion.**)	17	
18a	Retirement plans, etc.	18a	
b	Employee benefit programs	18b	
19	Other deductions (attach schedule)	19	2245
20	**TOTAL** deductions (add amounts in column for lines 9c through 19)	20	15895
21	Ordinary income (loss) from trade or business activity(ies) (subtract line 20 from line 8)	21	8885

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Edward E. Entrepreneur
Signature of general partner

▶ 1-28-88
Date

Paid Preparer's Use Only

Preparer's signature ▶ Alice Accountant
Date: 1-25-88
Check if self-employed ▶ ☒
Preparer's social security no.: 835 35 3535
Firm's name (or yours if self-employed) and address ▶ ALICE ACCOUNTANT
6543 W SOYBEAN, HOMETOWN, MN
E.I. No. ▶
ZIP code ▶ 55497

F[illegible] ([illegible])

Schedule A Cost of Goods Sold and/or Operations

1	Inventory at beginning of year	1	0
2	Purchases minus cost of items withdrawn for personal use	2	3860
3	Cost of labor	3	0
4a	Additional section 263A costs (see instructions)	4a	0
b	Other costs (attach schedule)	4b	0
5	Total (add lines 1 through 4b)	5	3860
6	Inventory at end of year	6	440
7	Cost of goods sold (subtract line 6 from line 5). Enter here and on page 1, line 2	7	3420

8a Check all methods used for valuing closing inventory:

(i) ☑ Cost

(ii) ☐ Lower of cost or market as described in regulations section 1.471-4

(iii) ☐ Writedown of "subnormal" goods as described in regulations section 1.471-2(c)

(iv) ☐ Other (specify method used and attach explanation) ▶

b Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ☐

c Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the partnership? ☑ Yes ☐ No

d Was there any change (other than for section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation ☐ Yes ☑ No

Schedule H Income (Loss) From Rental Real Estate Activity(ies)

1 In the space provided below, show the kind and location of each rental property. Attach a schedule if more space is needed.

Property A

Property B

Property C

Rental Real Estate Income		Properties A	Properties B	Properties C		Totals (Add columns A, B, C, and amounts from any attached schedule)
2 Gross Income	2				2	
Rental Real Estate Expenses						
3 Advertising	3					
4 Auto and travel	4					
5 Cleaning and maintenance	5					
6 Commissions	6					
7 Insurance	7					
8 Legal and other professional fees	8					
9 Interest expense	9					
10 Repairs	10					
11 Taxes	11					
12 Utilities	12					
13 Wages and salaries	13					
14 Depreciation from Form 4562	14					
15 Other (list)						
16 Total expenses. Add lines 3 through 15	16				16	
17 Net income (loss) from rental real estate activity(ies). Subtract line 16 from line 2. Enter total net income (loss) from all properties on Schedule K, line 2.	17				17	

"From this point on, it's a matter of reflecting how the various partners' interests have been affected by the year's operations. We summarize this information on Schedule K, Partners' Shares of Income, Credits, Deductions, etc.

"Line 1 reflects the partnership's net income, and line 5 reflects the $4,000 in guaranteed payments to the two of you. Line 9 reflects the Sec. 179 deduction and line 14a reflects the total earnings from self-employment."

Schedule K Partners' Shares of Income, Credits, Deductions, etc.

	(a) Distributive share items		(b) Total amount
Income (Loss)	1 Ordinary income (loss) from trade or business activity(ies) (page 1, line 21)	1	8885
	2 Net income (loss) from rental real estate activity(ies) (Schedule H, line 17)	2	
	3a Gross income from other rental activity(ies) 3a $	▨	
	b Minus expenses (attach schedule) 3b $	▨	
	c Balance net income (loss) from other rental activity(ies) ▶	3c	
	4 Portfolio income (loss):	▨	
	a Interest income	4a	
	b Dividend income	4b	
	c Royalty income	4c	
	d Net short-term capital gain (loss) (Schedule D, line 4)	4d	
	e Net long-term capital gain (loss) (Schedule D, line 9)	4e	
	f Other portfolio income (loss) (attach schedule)	4f	
	5 Guaranteed payments	5	4000
	6 Net gain (loss) under section 1231 (other than due to casualty or theft)	6	
	7 Other (attach schedule)	7	
Deductions	8 Charitable contributions (attach list)	8	
	9 Expense deduction for recovery property (section 179)	9	10000
	10 Deductions related to portfolio income (do not include investment interest expense)	10	
	11 Other (attach schedule)	11	
Credits	12a Credit for income tax withheld	12a	
	b Low-income housing credit (attach Form 8586)	12b	
	c Qualified rehabilitation expenditures related to rental real estate activity(ies) (attach schedule)	12c	
	d Credit(s) related to rental real estate activity(ies) other than 12b and 12c (attach schedule)	12d	
	e Credit(s) related to rental activity(ies) other than 12b, 12c, and 12d (attach schedule)	12e	
	13 Other (attach schedule)	13	
Self-Employment	14a Net earnings (loss) from self-employment	14a	12885
	b Gross farming or fishing income	14b	
	c Gross nonfarm income	14c	
Tax Preference Items	15a Accelerated depreciation of real property placed in service before 1/1/87	15a	
	b Accelerated depreciation of leased personal property placed in service before 1/1/87	15b	
	c Depreciation adjustment on property placed in service after 12/31/86	15c	
	d Depletion (other than oil and gas)	15d	
	e (1) Gross income from oil, gas, and geothermal properties	15e(1)	
	(2) Deductions allocable to oil, gas, and geothermal properties	15e(2)	
	f Other (attach schedule)	15f	
Investment Interest	16a Interest expense on investment debts	16a	
	b (1) Investment income included on lines 4a through 4f, Schedule K	16b(1)	
	(2) Investment expenses included on line 10, Schedule K	16b(2)	
Foreign Taxes	17a Type of income	▨	▨
	b Foreign country or U.S. possession	▨	▨
	c Total gross income from sources outside the U.S. (attach schedule)	17c	
	d Total applicable deductions and losses (attach schedule)	17d	
	e Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	17e	
	f Reduction in taxes available for credit (attach schedule)	17f	
	g Other (attach schedule)	17g	
Other	18 Attach schedule for other items and amounts not reported above. See Instructions	▨	▨

Schedule L Balance Sheets

(See the Instructions for Question M Before Completing Schedules L and M.)

	Beginning of tax year		End of tax year	
Assets	(a)	(b)	(c)	(d)
Cash				6428
2 Trade notes and accounts receivable			900	
a Minus allowance for bad debts				900
3 Inventories				440
4 Federal and state government obligations				
5 Other current assets (attach schedule)				
6 Mortgage and real estate loans				
7 Other investments (attach schedule)				
8 Buildings and other depreciable assets			14000	
a Minus accumulated depreciation			2100	11900
9 Depletable assets				
a Minus accumulated depletion				
10 Land (net of any amortization)				
11 Intangible assets (amortizable only)				
a Minus accumulated amortization				
12 Other assets (attach schedule)				
13 **TOTAL** assets		0		19668
Liabilities and Capital				
14 Accounts payable				90
15 Mortgages, notes, bonds payable in less than 1 year				5547
16 Other current liabilities (attach schedule)				
17 All nonrecourse loans				
18 Mortgages, notes, bonds payable in 1 year or more				12796
Other liabilities (attach schedule)				
Partners' capital accounts				1235
21 **TOTAL** liabilities and capital		0		

Schedule M Reconciliation of Partners' Capital Accounts

(Show reconciliation of each partner's capital account on Schedule K-1 (Form 1065), Question I.)

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Income (loss) from lines 1, 2, 3c, and 4 of Sch. K	(d) Income not included in column (c), plus nontaxable income	(e) Losses not included in column (c), plus unallowable deductions	(f) Withdrawals and distributions	(g) Capital account at end of year
0	2350	8885	0	10000	0	1235

Designation of Tax Matters Partner

The following general partner is hereby designated as the tax matters partner (TMP) for the tax year for which this partnership return is filed:

Name of designated TMP ▶ EDWARD ENTREPRENEUR Identifying number of TMP ▶ 831 99 7877

Address of designated TMP ▶ 8429 TALL OAK CURVE HOMETOWN, MN 55499

✿U.S. GOVERNMENT PRINTING OFFICE: 1987-183-165 E.I. 43-0787287

"Then, on separate Schedules K-1 for **each** partner, we reflect those portions of the partnership's activities which are to be attributed to each partner. Answers to questions A through D are straightforward and merely reflect the nature of the agreement between the partners. The line regarding ownership of capital merely reflects **your** interest which is determined by adding your original contribution of $350, plus your $6,664 share of the partnership's income, minus your 75% share of the $10,000 Sec. 179 deduction, divided by the partnership's total capital. We reconcile your capital account on line F.

"Line 1 is for your 75% share of partnership income; Paul's 25% would be $2,221. Line 5, guaranteed payments, reflects your $2,750; Paul's would be $1,250. Line 14a totals your self-employment earnings, this amount less your share of the Sec. 179 deduction would be inserted on Line 2 of your personal Form 1040, Schedule SE. As you can see, your 75% share of the partnership's income/loss flows directly through to you."

"Of course, we would have attached Form 4562 reflecting depreciation to the Form 1065, rather than to your personal Form 1040."

"O.K.," Ed commented, "now I understand this concept. May I assume that an S Corporation would behave in a similar manner?"

"While there are some differences, the two are philosophically the same. An S corporation (what we used to call a Subchapter S Corporation) is generally **not a taxpayer.** It files its return on Form 1120S, U.S. Income Tax Return for an S Corporation, which is quite similar to a partnership return, the

SCHEDULE K-1
(Form 1065)
Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc.

For calendar year 1987 or fiscal year
beginning ...., 1987, and ending ...., 19....

OMB No. 1545-0099

1987

Partner's identifying number ▶

Partner's name, address, and ZIP code
EDWARD E. ENTREPRENEUR
8429 TALL OAK CURVE
HOMETOWN, MN 55499

Partnership's identifying number ▶

Partnership's name, address, and ZIP code
WIDGET MANUFACTURING CO
8964 INDUSTRIAL ROAD
HOMETOWN, MN 55498

A(1) Is this partner a general partner? ☑ Yes ☐ No
If "yes" to Question A(1):
(2) Did this partner materially participate in the trade or business activity(ies) of the partnership? (See page 12 of the Form 1065 Instructions. Leave blank if no trade or business activities.) ☑ Yes ☐ No
(3) Did this partner actively participate in the rental real estate activity(ies) of the partnership? (See page 13 of the Form 1065 Instructions. Leave blank if no rental real estate activities.) ☐ Yes ☐ No

B Partner's share of liabilities
Nonrecourse $ ....
Other $ 13825

C What type of entity is this partner? ▶ INDIVIDUAL

D Enter partner's percentage of:

	(i) Before decrease or termination	(ii) End of year
Profit sharing	%	75 %
Loss sharing	%	75 %
Ownership of capital	%	%

E IRS Center where partnership filed return ▶ ANDOVER
F Tax Shelter Registration Number ▶ ....
G(1) Did the partner's ownership interest in the partnership increase after Oct. 22, 1986? ☐ Yes ☑ No
If yes, attach statement. (See page 13 of the Form 1065 Instructions.)
(2) Did the partnership start or acquire a new activity after Oct. 22, 1986? ☑ Yes ☐ No
If yes, attach statement. (See page 14 of the Form 1065 Instructions.)
H Check here ▶ ☐ if this Schedule K-1 is for a short tax year required by section 706(b).

I Reconciliation of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Income (loss) from lines 1, 2, 3, and 4 below	(d) Income not included in column (c), plus nontaxable income	(e) Losses not included in column (c), plus unallowable deductions	(f) Withdrawals and distributions	(g) Capital account at end of year
0	350	6664		7500		<486>

Caution: *Refer to attached Partner's Instructions for Schedule K-1 (Form 1065) before entering information from this schedule on your tax return.*

		(a) Distributive share item	(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1	Ordinary income (loss) from trade or business activity(ies)	6664	(See Partner's Instructions for Schedule K-1 (Form 1065))
	2	Income or loss from rental real estate activity(ies)		
	3	Income or loss from other rental activity(ies)		
	4	Portfolio income (loss):	▨	
	a	Interest		Sch. B, Part I, line 2
	b	Dividends		Sch. B, Part II, line 4
	c	Royalties		Sch. E, Part I, line 5
	d	Net short-term capital gain (loss)		Sch. D, line 5, col. (f) or (g)
	e	Net long-term capital gain (loss)		Sch. D, line 12, col. (f) or (g)
	f	Other portfolio income (loss) (attach schedule)		(Enter on applicable lines of your return)
	5	Guaranteed payments	2750	(See Partner's Instructions for Schedule K-1 (Form 1065))
	6	Net gain (loss) under section 1231 (other than due to casualty or theft)		
	7	Other (attach schedule)		(Enter on applicable lines of your return)
Deductions	8	Charitable contributions		See Form 1040 Instructions
	9	Expense deduction for recovery property (section 179)	7500	(See Partner's Instructions for Schedule K-1 (Form 1065))
	10	Deductions related to portfolio income		
	11	Other (attach schedule)		
Credits	12a	Credit for income tax withheld		See Form 1040 Instructions
	b	Low-income housing credit		Form 8586, line 8
	c	Qualified rehabilitation expenditures related to rental real estate activity(ies) (attach schedule)	▨	(See Partner's Instructions for Schedule K-1 (Form 1065))
	d	Credit(s) related to rental real estate activity(ies) other than 12b and 12c (attach schedule)	▨	
	e	Credit(s) related to rental activity(ies) other than 12b, 12c, and 12d (attach schedule)	▨	
	13	Other credits (attach schedule)		

For Paperwork Reduction Act Notice, see Form 1065 Instructions.

Schedule K-1 (Form 1065) 1987

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		(a) Distributive share item	(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Self-employment	14a	Net earnings (loss) from self-employment	9414	Sch. SE, Part I
	b	Gross farming or fishing income		(See Partner's Instructions for Schedule K-1 (Form 1065))
	c	Gross nonfarm income		
Tax Preference Items	15a	Accelerated depreciation of real property placed in service before 1/1/87		Form 6251, line 5a
	b	Accelerated depreciation of leased personal property placed in service before 1/1/87		Form 6251, line 5b
	c	Depreciation adjustment on property placed in service after 12/31/86		Form 6251, line 4g
	d	Depletion (other than oil and gas)		Form 6251, line 5h
	e	(1) Gross income from oil, gas, and geothermal properties		See Form 6251 Instructions
		(2) Deductions allocable to oil, gas, and geothermal properties		See Form 6251 Instructions
	f	Other (attach schedule)		(See Partner's Instructions for Schedule K-1 (Form 1065))
Investment Interest	16a	Interest expense on investment debts		Form 4952, line 1
	b	(1) Investment income included in Schedule K-1, lines 4a through 4f		(See Partner's Instructions for Schedule K-1 (Form 1065))
		(2) Investment expenses included in Schedule K-1, line 10		
Foreign Taxes	17a	Type of income		Form 1116, Check boxes
	b	Name of foreign country or U.S. possession		Form 1116, Part I
	c	Total gross income from sources outside the U.S. (attach schedule)		Form 1116, Part I
	d	Total applicable deductions and losses (attach schedule)		Form 1116, Part I
	e	Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued		Form 1116, Part II
	f	Reduction in taxes available for credit (attach schedule)		Form 1116, Part III
	g	Other (attach schedule)		See Form 1116 Instructions
Other	18	Other items and amounts not included in lines 1 through 17g and 19 that are required to be reported separately to you		(See Partner's Instructions for Schedule K-1 (Form 1065))

			A	B	C	
Property Subject to Recapture of Investment Credit	19	Properties:				
	a	Description of property (State whether recovery or nonrecovery property. If recovery property, state whether regular percentage method or section 48(q) election used.)				Form 4255, top
	b	Date placed in service				Form 4255, line 2
	c	Cost or other basis				Form 4255, line 3
	d	Class of recovery property or original estimated useful life				Form 4255, line 4
	e	Date item ceased to be investment credit property				Form 4255, line 8

Other Information Provided by Partnership:

owners **(shareholders)** report their respective shares of income/loss on a Schedule E attached to their personal Form 1040s. Similarly, proportional shares of certain interest income and dividends are reported on personal Schedule B and capital gains and losses on personal Schedule D.

"One difference is that, as a shareholder, you pay no self-employment tax on corporate income. If a shareholder is **employed** by the S corporation, however, normal withholding applies to any wages paid. Distributions of profits are not further taxed to the individual owners.

"On the other hand, a regular corporation, now called a C corporation, is a taxpayer and files Form 1120, U.S. Corporation Income Tax Return. If a corporation distributes profits to its shareholders, they are in the form of dividends which are then reported on Schedule B of Form 1040. The taxes paid by a C corporation are based on rates which are different from those for individuals."

"Alright, then," Ed summarized, "what I've heard you say is that profit/loss and tax benefits/liabilities pass through to the owners of partnerships and S corporations in a similar manner. Profits, whether or not actually distributed, are taxed to the owners based on their personal situations. Partners pay self-employment taxes on partnership income, just as is the case for sole proprietors. Shareholders in S corporations do not pay self-employment taxes on corporate income.

"C corporations, however, pay their own taxes and make any distributions to owners through dividends which are taxable to the recipients."

"Really, that seems pretty simple to me."

"Wait a minute!" Alice interjected. "You asked me for a quick overview, and that's all I gave you. Beware of icebergs! If you want a more thorough understanding of these various situations, I urge that you read the following IRS Publications:

334	**Tax Guide for Small Business**
541	**Tax Information on Partnerships**
542	**Tax Information on Corporations**
583	**Information for Business Taxpayers**
589	**Tax Information on S Corporations**

"The **Tax Guide for Small Business** provides excellent background information, and includes detailed examples of business tax returns for individuals, partnerships, C corporations and S corporations. Publication 583 is intended for the sole proprietor. The others provide details which are pertinent to each form of business entity.

"Once again, you must determine for yourself just how much of an expert you wish to be in this whole area of accounting and taxes. If you're willing to put forth the effort to become an expert, that's all well and good. On the other hand, if your time and talent can be put to better use in your own field of specialization, then I recommend that you retain qualified assistance in these areas."

"O.K.," Ed laughed as he replied, "your point is well taken.

"Say, while I think of it," he continued, "with all the ledgers and forms and schedules we've gone over, I sometimes feel that I'm in the middle of a paper blizzard. How long do I have to keep this mass of paper?"

"The **Tax Guide for Small Business** covers it pretty well," Alice replied. "As a general rule, keep all business records for at least three years from when the tax return was due or filed, or two years from the date the tax was paid, whichever occurs later.

"Keep asset records which verify your basis in property for as long as they are needed to figure the basis of the original or replacement property, and/or figuring/refiguring investment credit or recapture.

"In some instances, records may be needed for an indefinite period to support decisions regarding changes in accounting methods or inventory valuations.

"If you are an employer, you'll need to retain all records and returns pertaining to employment taxes such as income tax withholding, social security taxes, and federal unemployment taxes, for at least four years after the due date of the return or after the date the tax was paid, whichever is later.

"I urge that copies of tax or information returns be kept as long as there is any need for the corresponding business records. If the mountain of paper gets too big, there are provisions for microfilming such records in order to reduce the bulk to a more manageable size. I can help you if this becomes an item of importance.

"Keep in mind, this is nothing more than a bird's-eye view of this subject, too. I suggest that you contact me **before** discarding **any** of your business records or tax/information returns."

Ed grimaced. "Alright, Alice, I hear you loud and clear! And, I'm not going to argue. You've steered me in the right direction so far, so I'd be foolish to ignore your good advice."

PAYROLL

"But," he continued, "your comment about an employer's records just reminded me about something else.

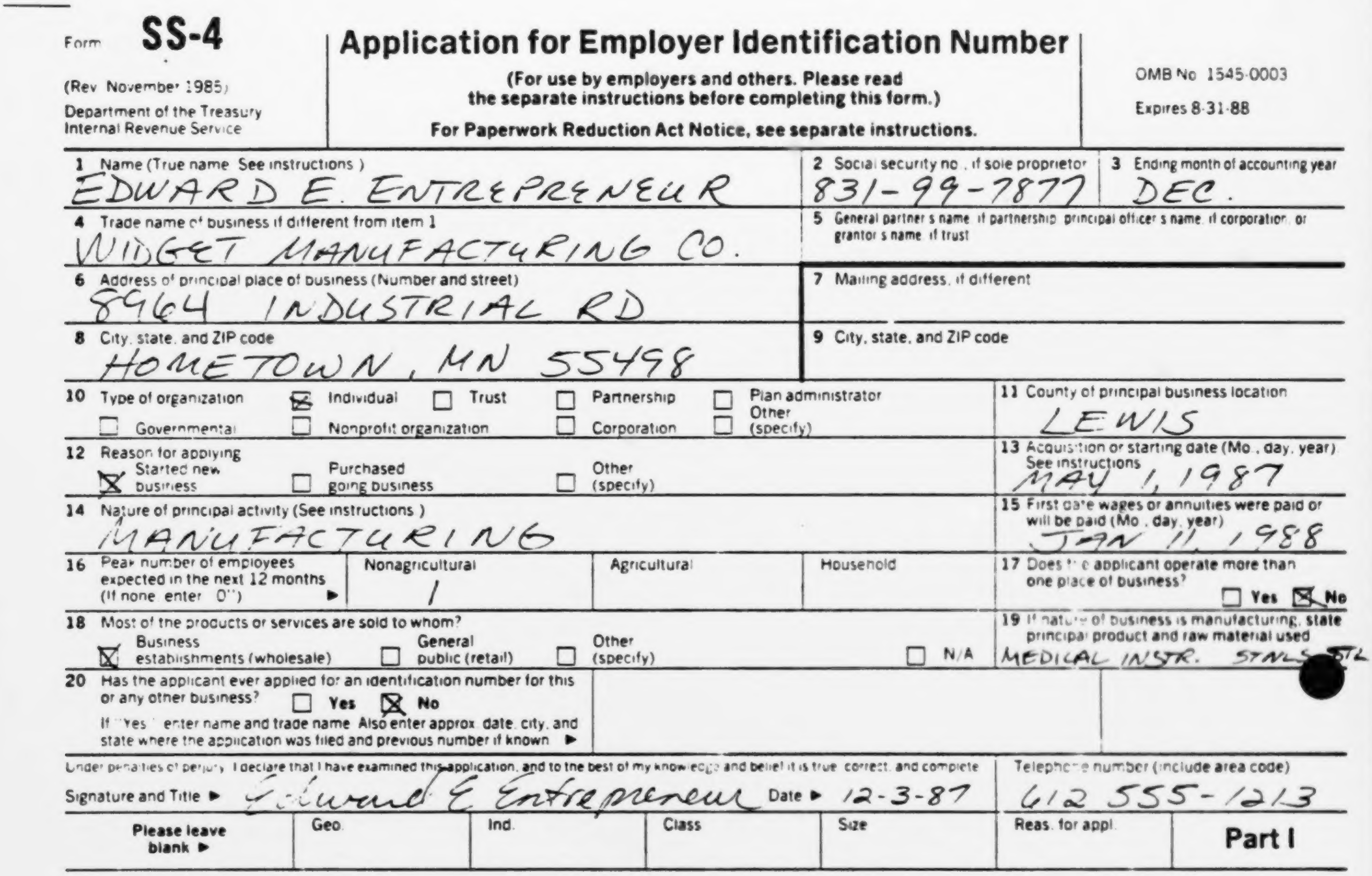
"My new machinery sits idle whenever I'm not personally available to use it and I've been toying with the idea of finding another machinist to work for me. My overhead costs wouldn't change -- the rent's already paid and the equipment is in place. The only additional costs would be for the new person's payroll. What would my responsibilities be in handling the payroll and withholdings and such?"

"You're wise to bring this question up now because, once again, some thoughtful planning can help you do it right the first time. An employer has a number of obligations, and the IRS is most adamant that employers abide by the rules and regulations.

"IRS Publication 15, **Employer's Tax Guide,** also called Circular E, is the primary reference for an employer. It provides the definitions and withholding schedules which will be appropriate in most situations. Additional information and methods for special cases can be found in IRS Publication 493, **Alternative Tax Withholding Methods and Tables.**

"Let's review the major factors which affect most employers.

"First of all, as a sole proprietorship, you must apply for an Employer Identification Number by filing Form SS-4. I'll complete one as an example.



Form **SS-4**
(Rev. November 1985)
Department of the Treasury
Internal Revenue Service

Application for Employer Identification Number
(For use by employers and others. Please read the separate instructions before completing this form.)
For Paperwork Reduction Act Notice, see separate instructions.

OMB No. 1545-0003
Expires 8-31-88

1 Name (True name. See instructions.) EDWARD E. ENTREPRENEUR
2 Social security no., if sole proprietor 831-99-7877
3 Ending month of accounting year DEC.
4 Trade name of business if different from item 1 WIDGET MANUFACTURING CO.
5 General partner's name, if partnership; principal officer's name, if corporation; or grantor's name, if trust
6 Address of principal place of business (Number and street) 8964 INDUSTRIAL RD
7 Mailing address, if different
8 City, state, and ZIP code HOMETOWN, MN 55498
9 City, state, and ZIP code
10 Type of organization ☒ Individual ☐ Trust ☐ Partnership ☐ Plan administrator ☐ Governmental ☐ Nonprofit organization ☐ Corporation ☐ Other (specify)
11 County of principal business location LEWIS
12 Reason for applying ☒ Started new business ☐ Purchased going business ☐ Other (specify)
13 Acquisition or starting date (Mo., day, year) See instructions MAY 1, 1987
14 Nature of principal activity (See instructions.) MANUFACTURING
15 First date wages or annuities were paid or will be paid (Mo., day, year) JAN 11, 1988
16 Peak number of employees expected in the next 12 months (If none, enter "0") ▶ Nonagricultural 1 Agricultural Household
17 Does the applicant operate more than one place of business? ☐ Yes ☒ No
18 Most of the products or services are sold to whom? ☒ Business establishments (wholesale) ☐ General public (retail) ☐ Other (specify) ☐ N/A
19 If nature of business is manufacturing, state principal product and raw material used MEDICAL INSTR. STNLS STL
20 Has the applicant ever applied for an identification number for this or any other business? ☐ Yes ☒ No
If "Yes," enter name and trade name. Also enter approx. date, city, and state where the application was filed and previous number if known ▶

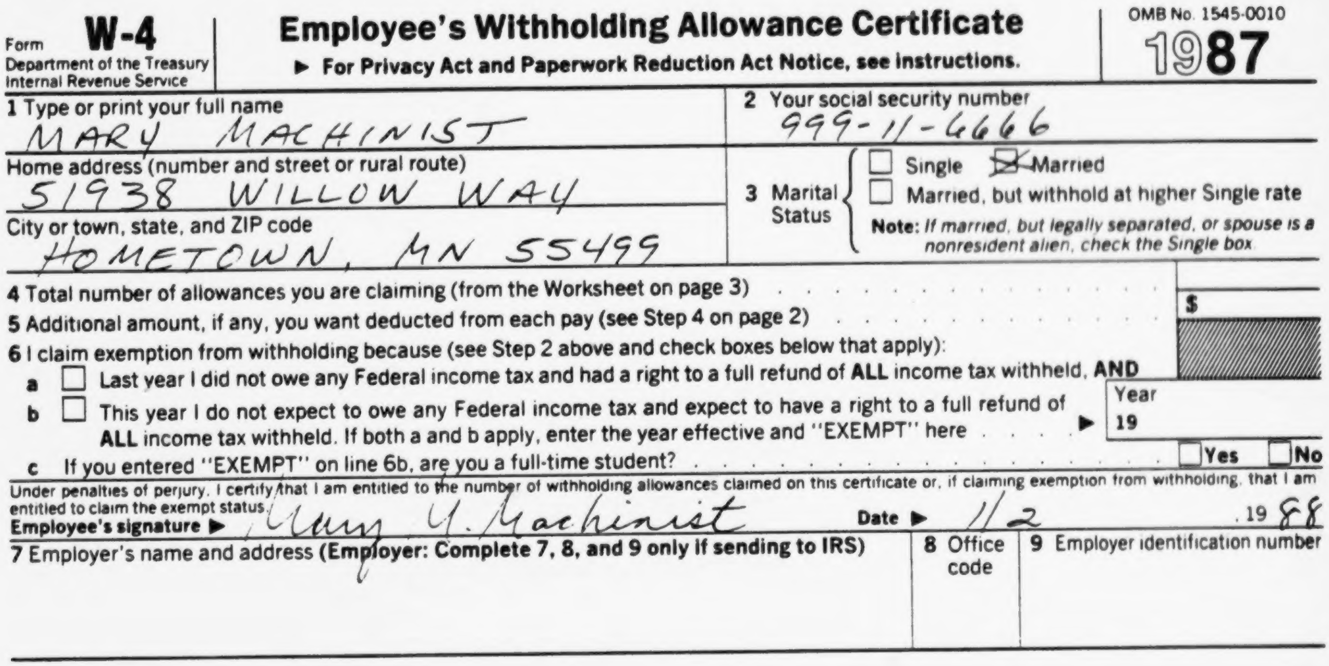
Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief it is true, correct, and complete.
Signature and Title ▶ Edward E. Entrepreneur Date ▶ 12-3-87
Telephone number (include area code) 612 555-1213

Please leave blank ▶	Geo.	Ind.	Class	Size	Reas. for appl.	**Part I**

"If your company were a partnership or corporation, you would have applied for the number when the business was formed.

"Next, before any wages are paid, the employer must obtain from each employee a completed Form W-4, Employee's Withholding Allowance Certificate, on which the individual discloses here his or her social security number and makes certain representations about withholding allowances which will affect the payroll withholdings. If the employee refuses to provide a Form W-4, or if the employee indicates in any way that the form is erroneous, you must withhold income taxes as if the employee were single and claimed no withholding allowances.

"Here, I'll fill out a sample for Mary Machinist."



Form **W-4** Department of the Treasury Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **For Privacy Act and Paperwork Reduction Act Notice, see instructions.**

OMB No. 1545-0010

1987

1 Type or print your full name
MARY MACHINIST

2 Your social security number
999-11-6666

Home address (number and street or rural route)
51938 WILLOW WAY

City or town, state, and ZIP code
HOMETOWN, MN 55499

3 Marital Status ☐ Single ☒ Married ☐ Married, but withhold at higher Single rate

Note: *If married, but legally separated, or spouse is a nonresident alien, check the Single box.*

4 Total number of allowances you are claiming (from the Worksheet on page 3)

5 Additional amount, if any, you want deducted from each pay (see Step 4 on page 2) $

6 I claim exemption from withholding because (see Step 2 above and check boxes below that apply):

a ☐ Last year I did not owe any Federal income tax and had a right to a full refund of **ALL** income tax withheld, **AND**

b ☐ This year I do not expect to owe any Federal income tax and expect to have a right to a full refund of **ALL** income tax withheld. If both a and b apply, enter the year effective and "EXEMPT" here ▶ Year 19

c If you entered "EXEMPT" on line 6b, are you a full-time student? ☐ Yes ☐ No

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate or, if claiming exemption from withholding, that I am entitled to claim the exempt status.

Employee's signature ▶ Mary Y. Machinist **Date ▶** 11/2 , 19 88

7 Employer's name and address (**Employer: Complete 7, 8, and 9 only if sending to IRS**)

8 Office code

9 Employer identification number

"The employee's signature and social security number are required. Using this information, you can then determine how much to withhold from the employee's periodic paycheck. Normally, you'd merely retain the signed original of the W-4 in your files but, under certain circumstances, you may be required to forward copies to the IRS."

"What kinds of circumstances?" Ed inquired.

"One situation would be where the employee claims more than 10 withholding allowances. Another would be where his or her weekly wages are expected to usually exceed $200 and the employee claims to be exempt from income tax withholding.

"Let's return to our hypothetical situation. How much are you likely to pay Mary Machinist?"

"Well, as I mentioned before," Ed replied, "a good machinist should be earning about $15 per hour. Even though this could be a part time job, maybe 10 hours per week, I'd still expect to pay that same amount."

O.K.," Alice continued. "Let's assume you pay Mary every other week on Friday. If she worked 10 hours each week, her gross pay would be $300.

"Earlier I had said there are several methods from which you can choose to compute the amounts to be withheld from a paycheck. Following the Tax Tables in Publication 15 for income tax withholding, and multiplying the wage by the applicable rate for FICA withholding, will most likely be the easiest.

"In this example, with Mary's certificate reflecting that she's married and claiming a total of three withholding allowances, we look up the appropriate income tax withholding from the table entitled Married Persons -- Biweekly Payroll Period. According to the table, with wages of at least $300 but less than $310, the withholding is $6.00.

"Beginning in 1988, the Social Security tax rate for both employees and employers is 7.51% on the first $45,000 earned during the year. A $300 payroll in this example dictates that $22.53 be withheld from Mary's paycheck.

"I recommend that we set up several journals to accommodate these items. In your Balance Sheet accounts, we'll establish three liability journals: Federal Income Tax Withheld, FICA Tax Withheld and Accrued, and FUTA Tax Accrued. Then, to balance, we'll add two Expense Accounts -- Employee Salaries and Taxes Paid -- in your Operating Statement."

"Hold it!" Ed interjected. "What, pray tell, are FICA and FUTA!"

"FICA refers to the Federal Insurance Contributions Act, and is another name for Social Security.

"FUTA is the Federal Unemployment Tax Act, the vehicle by which the federal government provides support to the unemployment compensation funds established by each state. An employer has to contribute to both federal and state unemployment plans.

"Your entries when you pay these wages would be:

Account	Description	Dr.	Cr.
Employee Salary	Payroll 1/1-1/11/88	300.00	
Fed Inc Tax W/H	P/R W/H 1/1-1/11/88		6.00
FICA Tax W/H & Accr	P/R W/H 1/1-1/11/88		22.53
Cash in Bank	Mary - P/R 1/1-1/11/88		271.47

"In other words, the check you prepare for Mary would be for the amount remaining after subtracting the withholdings from her gross pay.

"Now, in order to avoid confusion if you were to hire other employees, and to make it easier to prepare payroll tax returns, you should also set up a separate payroll journal for Mary. This would be a record which is unique to each employee and contains all pertinent information, including the rate of pay, social security number, marital status, and number of withholding allowances.

"Then, as each payroll check is prepared, you'd enter the information in a manner similar to this:

Date Paid	Period End	Hrs	Rate	Gross Pay	Fed W/H	FICA W/H	Net Pay
1/11/88	1/11/88	20	15.00	300.00	6.00	22.53	271.47

"At the same time, you would make entries in your ledger to reflect the employer's 7.51% contribution to FICA in the amount of $22.53.

"The journal entries would be something like this:

Account	Description	Dr.	Cr.
Payroll Tax Expense	FICA 1/1-1/11/88	22.53	
FICA Tax W/H & Accr	Employer FICA - 1/11/88		22.53

"Next, we check with Publication 15 to determine when you must deposit the income taxes withheld, along with the FICA taxes, which have accumulated in those two liability accounts."

"Deposit? Where?" asked Ed.

"Either with the Federal Reserve Bank serving your area, or with an **authorized financial institution.** Most commercial banks are authorized depositories and usually are the easiest. Chances are your own bank is an authorized depository.

"IRS rules require that employers periodically forward the withheld and accrued taxes. The answer to the question as to when the taxes must be deposited is determined by the total amount withheld and accrued.

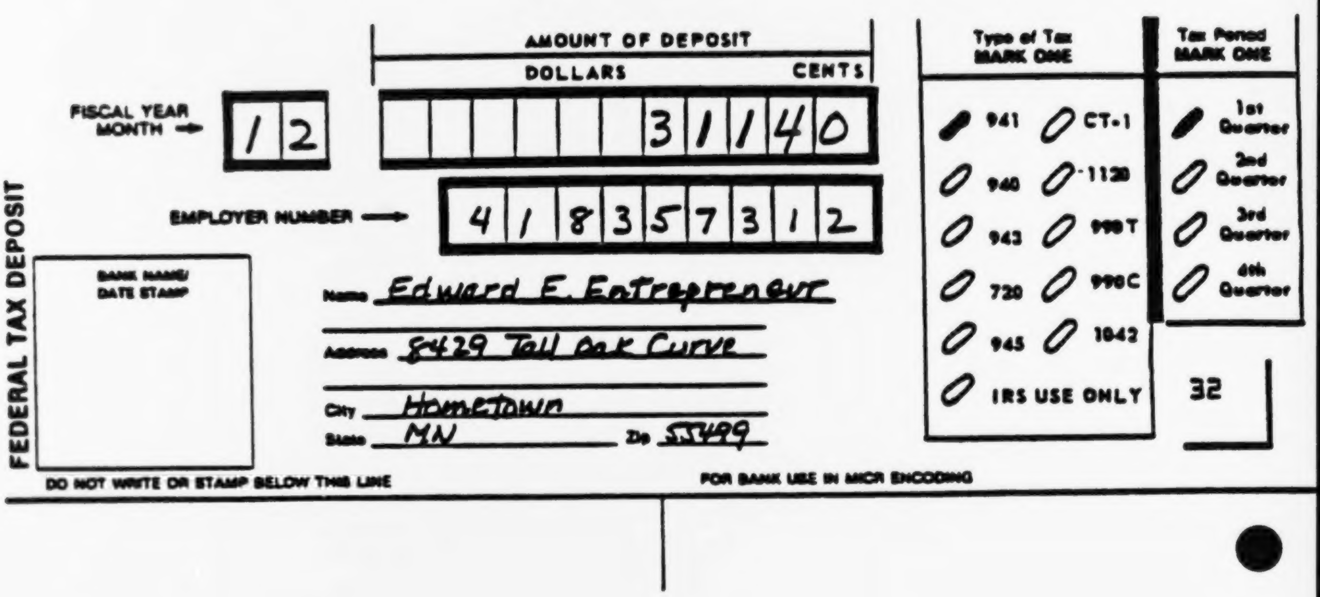
"Looking at the Federal Tax Withheld and the FICA Tax Withheld and Accrued accounts, we find that there's $6.00 plus $45.06 -- a total of $51.06 to date.

"Checking with the **Depositing Taxes** section in Publication 15, we find that if, at the end of a month, your total undeposited taxes are less than $500, no deposit is required at that time and the balance can be carried forward to the next month of the same quarter.

"If, at any time during a month, the aggregate of the withholdings and accruals is $3,000 or more, then a deposit is required almost immediately. Publication 15 contains a special **eighth-month deposit schedule.**

"If the total undeposited taxes are more than $500 at the end of a month, a deposit is required within 15 days after the end of that month.

"If you did have to deposit these funds, you'd merely draw a check to the depository, and enclose with it a Federal Tax Deposit Form 8109 which has your business name and employer identification number to assure that the funds are credited to your account.



FEDERAL TAX DEPOSIT

AMOUNT OF DEPOSIT
DOLLARS | CENTS
FISCAL YEAR MONTH → 1 2
3 1 1 4 0
EMPLOYER NUMBER → 4 1 8 3 5 7 3 1 2

BANK NAME/ DATE STAMP

Name Edward E. Entrepreneur
Address 8429 Tall Oak Curve
City Hometown
State MN Zip 55499

Type of Tax MARK ONE
● 941 ○ CT-1
○ 940 ○ 1120
○ 943 ○ 990T
○ 720 ○ 990C
○ 945 ○ 1042
○ IRS USE ONLY

Tax Period MARK ONE
● 1st Quarter
○ 2nd Quarter
○ 3rd Quarter
○ 4th Quarter

32

DO NOT WRITE OR STAMP BELOW THIS LINE
FOR BANK USE IN MICR ENCODING

"We mark the **941** box to reflect that the funds are FICA and federal tax withholdings.

"You're considered to **owe** the taxes when you pay the wages, not necessarily at the end of the payroll period. For example, if the payroll check you prepare for Mary is dated and given to her a week later -- the 20th -- you owe the taxes as of the 20th.

"At the end of the quarter, you would file a Form 941, Employer's Quarterly Federal Tax Return. You can either forward any remaining undeposited taxes to the IRS with the form, or deposit them using another Form 8109. I'll complete a 941 to give you an idea of how it would appear. I'll assume there were six payrolls of $300 each, and that none of the taxes had been previously deposited. I'll have to use a 1987 return since the 1988 returns are not yet available. I'll just insert the new rate of 7.51%"

Form **941**
(Rev. July 1987)
Department of the Treasury
Internal Revenue Service

Employer's Quarterly Federal Tax Return

4141 **For Paperwork Reduction Act Notice, see page 2.**

Please type or print.

OMB No. 1545-0029
Expires 8-31-88

Your name, address, employer identification number, and calendar quarter of return. (If not correct, please change.)

Name (as distinguished from trade name): EDWARD E ENTREPRENEUR
Date quarter ended: 3/31/88
Trade name, if any: WIDGET MANUFACTURING
Employer identification number: 41-835731 2
Address and ZIP code: 8964 INDUSTRIAL ROAD
HOMETOWN, MN 55498

T
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T

If address is different from prior return, check here ☐

IRS Use

1 1 1 1 1 1 1 1 1 1 2 3 3 3 3 3 3 4 4 4
5 5 5 6 7 8 8 8 8 8 8 9 9 9 10 10 10 10 10 10 10 10 10 10

If you are not liable for returns in the future, check here ▸ ___ Date final wages paid ▸

Complete for First Quarter Only

1a	Number of employees (except household) employed in the pay period that includes March 12th ▸	1a	1
b	If you are a subsidiary corporation AND your parent corporation files a consolidated Form 1120, enter parent corporation employer identification number (EIN) 1b –		
2	Total wages and tips subject to withholding, plus other compensation	2	1800
3	Total income tax withheld from wages, tips, pensions, annuities, sick pay, gambling, etc.	3	36
4	Adjustment of withheld income tax for preceding quarters of calendar year (see instructions)	4	
5	Adjusted total of income tax withheld	5	36
6	Taxable social security wages paid $ 1800 × ~~14.3% (.143)~~ 15.02 .1502	6	270 36
7a	Taxable tips reported $ ______ × 7.15% (.0715)	7a	
b	Tips deemed to be wages (see instructions) $ ______ × 7.15% (.0715)	7b	
c	Taxable hospital insurance wages paid $ ______ × 2.9% (.029)	7c	
8	Total social security taxes (add lines 6, 7a, 7b, and 7c)	8	270 3
9	Adjustment of social security taxes (see instructions for required explanation)	9	
10	Adjusted total of social security taxes (see instructions)	10	270 36
11	Backup withholding (see instructions)	11	
12	Adjustment of backup withholding tax for preceding quarters of calendar year	12	
13	Adjusted total of backup withholding	13	
14	Total taxes (add lines 5, 10, and 13) ▸	14	306 36
15	Advance earned income credit (EIC) payments, if any	15	
16	Net taxes (subtract line 15 from line 14). **This must equal line IV below** (plus line IV of Schedule A (Form 941) if you have treated backup withholding as a separate liability).	16	306 36
17	Total deposits for quarter, including overpayment applied from a prior quarter, from your records	17	
18	Balance due (subtract line 17 from line 16). This should be less than $500. Pay to IRS	18	306 36
19	If line 17 is more than line 16, enter overpayment here ▸ $ ______ and check if to be: ___ Applied to next return OR ___ Refunded.		

Record of Federal Tax Liability (Complete if line 16 is $500 or more.) See the instructions under rule 4 for details before checking these boxes.

Check only if you made eighth-monthly deposits using the 95% rule ▸ ☐ Check only if you are a first time 3-banking-day depositor ▸ ☐

Date wages paid	Tax liability *(Do not show Federal tax deposits here.)*					
		First month of quarter		Second month of quarter		Third month of quarter
1st through 3rd	A		I		Q	
4th through 7th	B		J		R	
8th through 11th	C		K		S	
12th through 15th	D		L		T	
16th through 19th	E		M		U	
20th through 22nd	F		N		V	
23rd through 25th	G		O		W	
26th through the last	H		P		X	
Total liability for month	I	102.12	II	102.12	III	102.12
IV Total for quarter (add lines *I*, *II*, and *III*)						306.36

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature ▸ Edward E Entrepreneur **Title** ▸ Owner **Date** ▸ 4-14-88

"O.K.," Ed remarked. "But, what about the FUTA tax?"

"In general, the FUTA rate is 0.80% of the first $7,000 paid to each employee during the year. We multiply Mary's salary of $300 by .008 to determine that the employer's FUTA contribution is $2.40 and then post these items to the appropriate journals.

Account	Description	Dr.	Cr.
Payroll Tax Expense	FUTA 1/1-1/11/88	2.40	
FUTA Tax Accrued	Employer FUTA - 1/11/88		2.40

"If the balance in the FUTA Tax Accrued account is $100 or more at the end of any quarter, it must be deposited in a manner similar to the deposits of FICA and income tax withholdings. In this instance, you would mark the **940** box on the Form 8109, signifying that it is a payment of FUTA tax.

"At the end of the calendar year, you must file a Form 940 which reconciles your FUTA tax liability with your deposits.

"In reality, the FUTA tax rate is 6.20%, but the employer which makes the proper payments into its respective state unemployment fund receives a credit for 5.40%. This is true even though the employer may have been assigned a lower **experience** rate by the state.

"Continuing with the example at hand, given 26 two-week payrolls of $300 each, the end-of-the-year 940 would be similar to the following.

Form **940**

Department of the Treasury
Internal Revenue Service

Employer's Annual Federal Unemployment (FUTA) Tax Return

► For Paperwork Reduction Act Notice, see page 2.

OMB No. 1545-0028

1987

T	
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FP	
I	
T	

If incorrect, make any necessary change. ►

Name (as distinguished from trade name): EDWARD E ENTREPRENEUR
Calendar year: 1987
Trade name, if any: WIDGET MANUFACTURING CO
Address and ZIP code: 8964 INDUSTRIAL RD
HOMETOWN, MN 55498
Employer identification number: 41-8357312

A Did you pay all required contributions to state unemployment funds by the due date of Form 940? (See instructions if none required.) . . . ☒ Yes ☐ No
If you checked the "Yes" box, enter the amount of contributions paid to state unemployment funds . . . . ► $ 234100

B Are you required to pay contributions to only one state? . . . . ☒ Yes ☐ No
If you checked the "Yes" box: (1) Enter the name of the state where you are required to pay contributions . . . ► MN
(2) Enter your state reporting number(s) as shown on state unemployment tax return. ► 1574600

C If any part of wages taxable for FUTA tax is exempt from state unemployment tax, check the box. (See the Specific Instructions on page 2.) . . . . . . ☐

Part I Computation of Taxable Wages and Credit Reduction (to be completed by all taxpayers)

			Amount paid		
1	Total payments (including exempt payments) during the calendar year for services of employees			1	7800
2	Exempt payments. (Explain each exemption shown, attaching additional sheets if necessary.) ►	2			
3	Payments for services of more than $7,000. Enter only the excess over the first $7,000 paid to individual employees not including exempt amounts shown on line 2. Do not use the state wage limitation.	3	800		
4	Total exempt payments (add lines 2 and 3)			4	800
5	**Total taxable wages** (subtract line 4 from line 1). (If any part is exempt from state contributions, see instructions.) ►			5	7000
6	Additional tax resulting from credit reduction for unrepaid advances to the state listed below (by two-letter Postal Service abbreviation). Enter the wages included on line 5 above for that state and multiply by the rate shown. (See the instructions.) Enter the credit reduction amount here and in Part II, line 2, or Part III, line 4: PA ______ x .015= ►			6	

Part II Tax Due or Refund (Complete if you checked the "Yes" boxes in both questions A and B and did not check the box in C, above.)

1	FUTA tax. Multiply the wages in Part I, line 5, by .008 and enter here	1	56
2	Enter amount from Part I, line 6	2	0
3	**Total FUTA tax** (add lines 1 and 2)	3	56
4	Minus: Total FUTA tax deposited for the year, including any overpayment applied from a prior year (from your records)	4	0
5	**Balance due** (subtract line 4 from line 3). This should be $100 or less. Pay to IRS ►	5	56
6	**Overpayment** (subtract line 3 from line 4). Check if it is to be: ☐ Applied to next return, or ☐ Refunded ►	6	

Part III Tax Due or Refund (Complete if you checked the "No" box in either question A or B or you checked the box in C, above. Also complete Part V.)

1	Gross FUTA tax. Multiply the wages in Part I, line 5, by .062			1	
2	Maximum credit. Multiply the wages in Part I, line 5, by .054	2			
3	Enter the smaller of the amount in Part V, line 11, or Part III, line 2	3			
4	Enter amount from Part I, line 6			4	
5	**Credit allowable** (subtract line 4 from line 3). (If zero or less, enter 0.)			5	
6	**Total FUTA tax** (subtract line 5 from line 1)			6	
7	Minus: Total FUTA tax deposited for the year, including any overpayment applied from a prior year (from your records)			7	
8	**Balance due** (subtract line 7 from line 6). This should be $100 or less. Pay to IRS ►			8	
9	**Overpayment** (subtract line 6 from line 7). Check if it is to be: ☐ Applied to next return, or ☐ Refunded ►			9	

Part IV Record of Quarterly Federal Tax Liability for Unemployment Tax (Do not include state liability.)

Quarter	First	Second	Third	Fourth	Total for Year
Liability for quarter	14.40	16.80	14.40	10.40	56.00

If you will not have to file returns in the future, write "Final" here (see general instruction "Who Must File") and sign the return. ►

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was or is to be deducted from the payments to employees.

Signature ► Edward E Entrepreneur Title (Owner, etc.) ► Owner Date ► 1-28-88

Form **940** (1987)

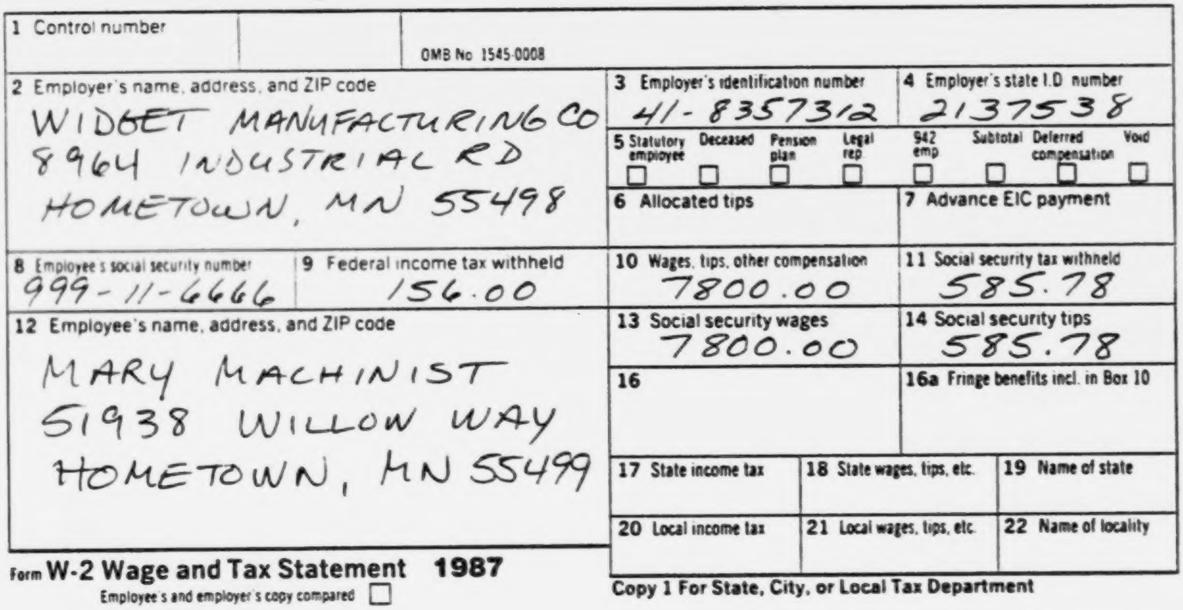
"Amounts owed to the federal government at the time 941 and 940 forms are filed can either be forwarded with the form, or can be deposited with the appropriate Form 8109. In some instances, it may be preferable to deposit the balance due, and then file the form. The idea is to avoid the possibility of payments, which were mailed in a timely manner, being delayed in transit or in processing by the IRS.

"Finally, there's one other task which employers must perform at the end of each calendar year -- completing and filing the W-2 Forms, **Wage and Tax Statement.**"

"That's one I recognize, Alice. I get a W-2 from my employer each January which shows the previous year's wages and withholdings."

"Correct, Ed. The employer is responsible for completing and distributing these forms. Copies B and C are to be given to the employee by January 31. Copy A is forwarded to the Social Security Administration, along with Form W-3, **Transmittal of Income and Tax Statements,** not later than the end of February.

"Here -- I'll prepare a W-2 for Mary, assuming the 26 two-week payrolls of $300, and a W-3 transmittal form for the year ending 1988. I'll have to use a 1987 form since the 1988 forms are not available yet."



1 Control number

OMB No 1545-0008

2 Employer's name, address, and ZIP code
WIDGET MANUFACTURING CO
8964 INDUSTRIAL RD
HOMETOWN, MN 55498

3 Employer's identification number: 41-8357312

4 Employer's state I.D number: 2137538

5 Statutory employee ☐ Deceased ☐ Pension plan ☐ Legal rep ☐ 942 emp ☐ Subtotal ☐ Deferred compensation ☐ Void ☐

6 Allocated tips

7 Advance EIC payment

8 Employee's social security number: 999-11-6666

9 Federal income tax withheld: 156.00

10 Wages, tips, other compensation: 7800.00

11 Social security tax withheld: 585.78

12 Employee's name, address, and ZIP code
MARY MACHINIST
51938 WILLOW WAY
HOMETOWN, MN 55499

13 Social security wages: 7800.00

14 Social security tips: 585.78

16

16a Fringe benefits incl. in Box 10

17 State income tax

18 State wages, tips, etc.

19 Name of state

20 Local income tax

21 Local wages, tips, etc.

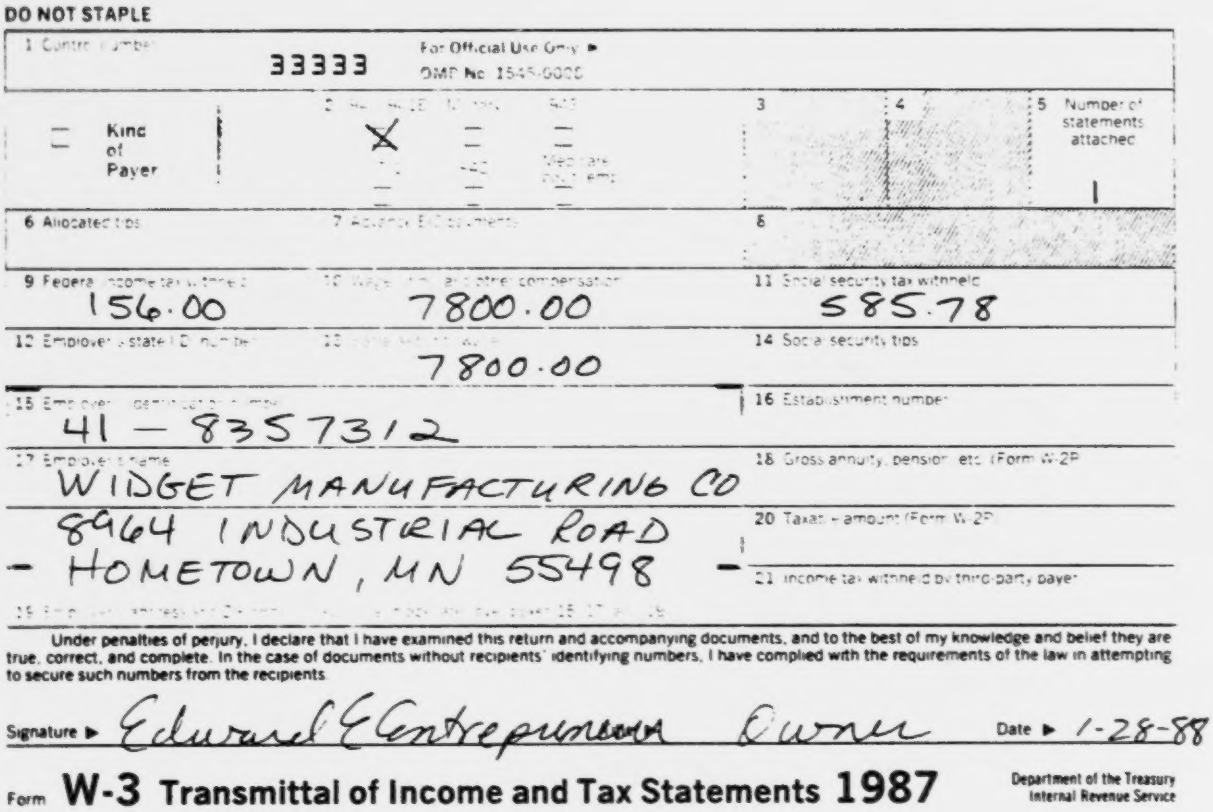
22 Name of locality

Form **W-2 Wage and Tax Statement 1987**

Employee's and employer's copy compared ☐

Copy 1 For State, City, or Local Tax Department

FORM W-3



DO NOT STAPLE

1 Control number 33333
For Official Use Only ▶
OMB No. 1545-0008

Kind of Payer
2 941/941E: X
Military
943
942
Medicare govt. emp.
3
4
5 Number of statements attached: 1

6 Allocated tips
7 Advance EIC payments
8

9 Federal income tax withheld: 156.00
10 Wages, tips, and other compensation: 7800.00
11 Social security tax withheld: 585.78

12 Employer's state I.D. number
13 Social security wages: 7800.00
14 Social security tips

15 Employer's identification number: 41 – 8357312
16 Establishment number

17 Employer's name: WIDGET MANUFACTURING CO
18 Gross annuity, pension, etc. (Form W-2P)

8964 INDUSTRIAL ROAD
HOMETOWN, MN 55498
20 Taxable amount (Form W-2P)
21 Income tax withheld by third-party payer

19 Employer's address and ZIP code (If available, place label over boxes 15, 17, and 19)

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and to the best of my knowledge and belief they are true, correct, and complete. In the case of documents without recipients' identifying numbers, I have complied with the requirements of the law in attempting to secure such numbers from the recipients.

Signature ▶ Edward E Entrepreneur Owner   Date ▶ 1-28-88

Form **W-3 Transmittal of Income and Tax Statements 1987**   Department of the Treasury Internal Revenue Service

"At the risk of being too brief, those are the primary obligations of all employers with respect to payrolls. Hope this was the kind of information you wanted, Ed."

"It certainly was, Alice. I feel much more comfortable about the idea now, many thanks."

"There is still one other reporting requirement which affects all businesses," she continued, "whether or not they're an employer as defined in the tax code."

"On, no!" Ed exclaimed in anguish. "Not another one!"

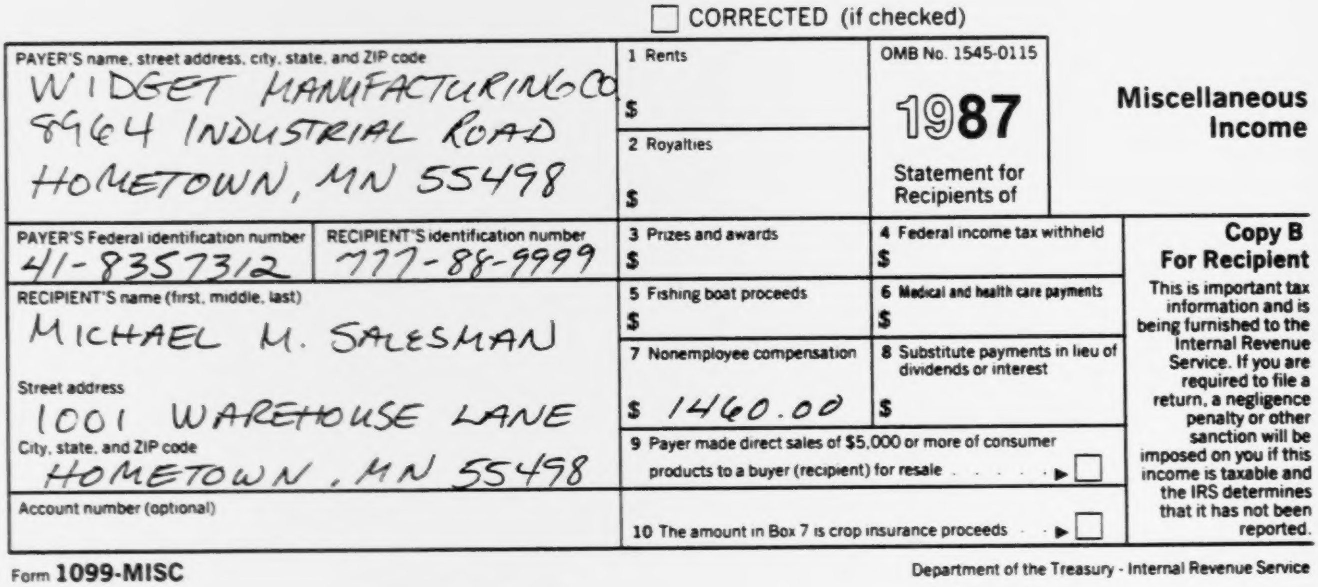
"Yes, indeed," Alice responded. "Recent tax legislation has established new requirements for reporting payments for services in the course of business if the recipient isn't a corporate entity.

"The general rule affecting 1988 activity requires that you file an **Information Return** reflecting totals of $600 or more which you have paid to others who are non-corporate entities. Specifically, this applies to the amounts which you have paid to Mike, your self-employed manufacturer's representative, and to me since my accounting practice is not incorporated."

"Do you mean I have to file a W-2 for Mike and you?"

"No, it's not a W-2. Instead, it's what's known as a Form 1099-MISC, Statement for Recipients of Miscellaneous Income, which performs a similar task -- reporting the total amount paid to each of us in 1986. It's really quite simple -- I'll prepare them right now.

FORM 1099-MISC FOR MIKE



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code
WIDGET MANUFACTURING CO
8964 INDUSTRIAL ROAD
HOMETOWN, MN 55498

1 Rents $

2 Royalties $

OMB No. 1545-0115
1987
Statement for Recipients of

Miscellaneous Income

PAYER'S Federal identification number 41-8357312

RECIPIENT'S identification number 777-88-9999

3 Prizes and awards $

4 Federal income tax withheld $

Copy B For Recipient

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this income is taxable and the IRS determines that it has not been reported.

RECIPIENT'S name (first, middle, last)
MICHAEL M. SALESMAN

Street address
1001 WAREHOUSE LANE

City, state, and ZIP code
HOMETOWN, MN 55498

Account number (optional)

5 Fishing boat proceeds $

6 Medical and health care payments $

7 Nonemployee compensation $ 1460.00

8 Substitute payments in lieu of dividends or interest $

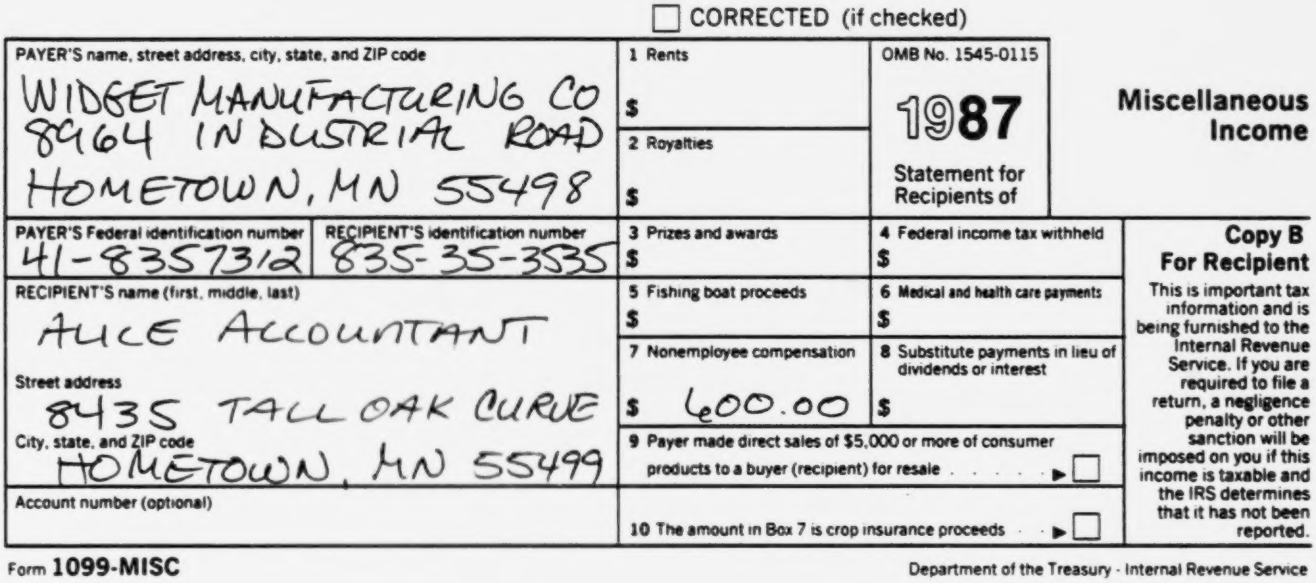
9 Payer made direct sales of $5,000 or more of consumer products to a buyer (recipient) for resale ▶ ☐

10 The amount in Box 7 is crop insurance proceeds ▶ ☐

Form **1099-MISC**

Department of the Treasury - Internal Revenue Service

FORM 1099-MISC FOR ALICE



☐ CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code WIDGET MANUFACTURING CO 8964 INDUSTRIAL ROAD HOMETOWN, MN 55498	1 Rents \$ 2 Royalties \$	OMB No. 1545-0115 1987 Statement for Recipients of	**Miscellaneous Income**
PAYER'S Federal identification number 41-8357312	RECIPIENT'S identification number 835-35-3535	3 Prizes and awards \$	4 Federal income tax withheld \$
RECIPIENT'S name (first, middle, last) ALICE ACCOUNTANT		5 Fishing boat proceeds \$	6 Medical and health care payments \$
Street address 8435 TALL OAK CURVE		7 Nonemployee compensation \$ 600.00	8 Substitute payments in lieu of dividends or interest \$
City, state, and ZIP code HOMETOWN, MN 55499		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale ▶ ☐	
Account number (optional)		10 The amount in Box 7 is crop insurance proceeds ▶ ☐	

Copy B
For Recipient
This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction will be imposed on you if this income is taxable and the IRS determines that it has not been reported.

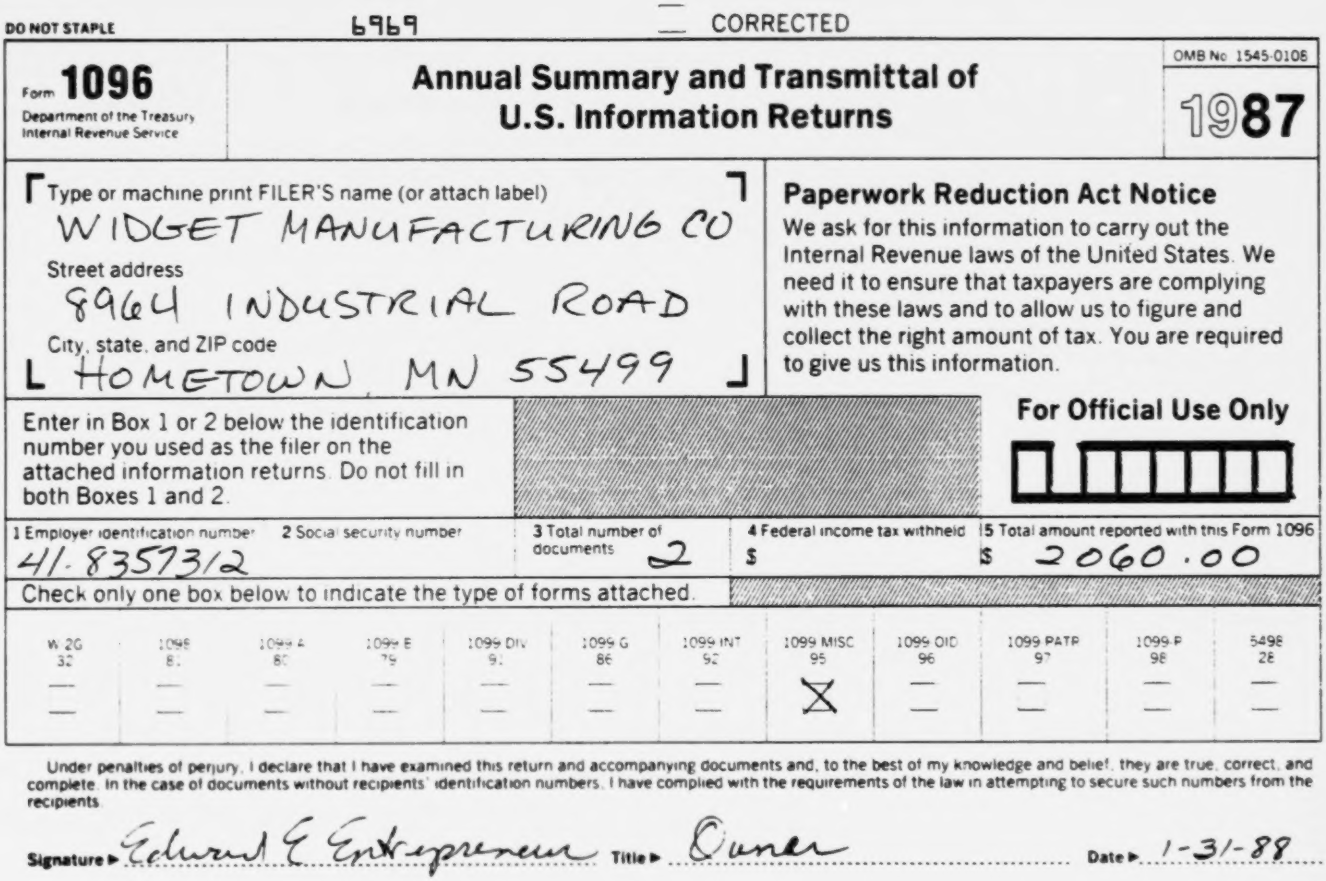
Form **1099-MISC**   Department of the Treasury - Internal Revenue Service

"As you can see, the forms show only the amounts actually paid. In my case, you can take the fees paid for 1986 services directly from your Operating Statement since the entire amount has been fully paid.

"In Mike's situation, however, you subtract the \$90 Commission Payable from the \$1,550 shown in your Operating Statement, and report only the net \$1,460 actually paid to him in 1987.

"Form 1096, Annual Summary and Transmittal of U.S. Information Returns, is analogous to the W-3 in that it summarizes the individual 1099's."

FORM 1096



DO NOT STAPLE 6969 — CORRECTED

Form **1096**
Department of the Treasury
Internal Revenue Service

Annual Summary and Transmittal of U.S. Information Returns

OMB No. 1545-0108

1987

Type or machine print FILER'S name (or attach label)
WIDGET MANUFACTURING CO
Street address
8964 INDUSTRIAL ROAD
City, state, and ZIP code
HOMETOWN, MN 55499

Paperwork Reduction Act Notice
We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Enter in Box 1 or 2 below the identification number you used as the filer on the attached information returns. Do not fill in both Boxes 1 and 2.

For Official Use Only

1 Employer identification number 41-8357312	2 Social security number	3 Total number of documents 2	4 Federal income tax withheld $	5 Total amount reported with this Form 1096 $ 2060.00

Check only one box below to indicate the type of forms attached.

W-2G 32	1098 81	1099-A 80	1099-B 79	1099-DIV 91	1099-G 86	1099-INT 92	1099-MISC 95	1099-OID 96	1099-PATR 97	1099-R 98	5498 28
☐	☐	☐	☐	☐	☐	☐	☒	☐	☐	☐	☐

Under penalties of perjury, I declare that I have examined this return and accompanying documents and, to the best of my knowledge and belief, they are true, correct, and complete. In the case of documents without recipients' identification numbers, I have complied with the requirements of the law in attempting to secure such numbers from the recipients.

Signature ▸ Edward E Entrepreneur Title ▸ Owner Date ▸ 1-31-88

"That's all there is to it in this instance," Alice replied. "However if the recipient does not provide his or her Social Security number for your records, you're required to withhold 20% of these payments and report them on the quarterly 941's as **Backup Withholding.**"

"That seems like a lot of extra work," he commented.

"Yes," she conceded, "but the idea is that all parties receiving income must be responsible for paying the taxes on that income."

At that point Alice pushed her chair back from her desk, stood up and stretched. "One other major reminder, Ed. After you've looked over all these forms and are satisfied as to their accuracy, **be sure to sign them!**"

"Ed laughed. "O.K., boss, will do."

"Say!" he exclaimed, looking at his watch, "it seems to me the workday is over. How about another steak and a bottle of wine?"

Alice smiled broadly. "I'm ready, Ed! This time, the treat is on me!"

* *

Special Note to the Reader: The complexity and constantly changing nature of the tax legislation and IRS rules and interpretations preclude a more in-depth treatment of these subjects.

The innumerable obligations of business operators, extending to personal liability of owners, officers and/or boards of directors, dictate that the responsible entrepreneur undertake extensive self-education or hire the appropriate talent.

* *

SUMMARY

Ed and Alice have ridden off into the sunset (or to some other cozy place) and it's now time to review what **we've** learned in this chapter.

Our objectives were to provide additional insight into some of the more technical aspects of accounting. Specifically, our targets were the subjects of (1) depreciation, (2) income taxes, and (3) the employer's payroll responsibilities.

In the first part, we learned that depreciation of a capital asset permits the entrepreneur to periodically expense a portion of the costs of acquiring an asset. Current tax laws permit several different methods whereby the business person can not only write off the equipment to reflect wear and tear, but also to accommodate accelerating technological obsolescense. Further, we found that the business owner has considerable latitude in the selection of the schedule to be used, allowing an approach which can be tailored to the particular situation.

Next we addressed the (sometimes terrifying) subject of income taxes and discovered that completing a tax return was really pretty easy. We were also reminded that thorough, accurate record-keeping provides the best single vehicle for the completion of a responsible tax return.

We compared tax returns for proprietorships and partnerships, and briefly discussed corporate tax returns. And, we found some similarities along with some differences.

We also learned that self-employed business people, including partners, are responsible for social security taxes in a manner similar to the combined obligations of employers and employees.

Finally, in the third part of this chapter, we discussed the responsibilities of payroll accounting. Here we focused on the employer's obligation for withholding of federal income taxes and social security taxes, along with the employer's contribution to social security and federal unemployment taxes. And, we learned that there are specific dates by which we must deposit these tax monies.

Throughout this chapter, we've deliberately confined our discussion to federal tax obligation. Each state and local authority will set its own set of rules and regulations regarding income and other taxes. Obviously, governing bodies being what they are, no two will adopt the same approach or rates. Nevertheless, it is the author's understanding that the federal tax return generally provides the beginning point for state and local income tax returns, and that most taxing authorities follow an approach which is at least philosophically similar to that of the federal government.

Throughout the chapter, we've avoided the subject of penalties which can be levied on the careless entrepreneur. The situation is simple: the laws have to be followed and the taxes have to be paid. It's our choice whether they're paid on time and in a responsible manner -- or late, with interest and penalties eroding our hard-earned income.

SUGGESTED INFORMATION SOURCES

IRS Publication No.	Title
15	Employer's Tax Guide (also called Circular E)
17*	Your Federal Income Tax (a tax guide for individuals)
334*	Tax Guide for Small Business
463	Travel, Entertainment, and Gift Expenses
493	Alternative Tax Withholding Methods & Tables
505	Tax Withholding and Estimated Tax
506	Income Averaging
523	Tax Information on Selling Your Home
525	Taxable and Nontaxable Income
533	Self-Employment Tax
534	Depreciation
535	Business Expenses
536	Net Operating Losses and the At-Risk Limits
538	Accounting Periods and Methods
539	Employment Taxes and Information Return Requirements
541	Tax Information on Partnerships
542	Tax Information on Corporations
544	Sales and Other Disposition of Assets
545	Interest Expense
548	Deduction for Bad Debts
550	Investment Income and Expenses
551	Basis of Assets
560	Self-Employed Retirement Plans
572	Investment Credit
583	Information for Business Taxpayers - Business Taxes, Identification Numbers, Recordkeeping
587	Business Use of Your Home
589	Tax Information on S Corporations
590	Individual Retirement Arrangements (IRAs)
909	Alternative Minimum Tax
910	Taxpayer's Guide to IRS Information Assistance, and Publications
1066	Small Business Tax Workshop Workbook

* We highly recommend these publications. Included are tax situations and examples covering a wide variety of small business operations.

NOTE: This is only a partial list of IRS Publications. Consult the Internal Revenue Service for current and complete listings.

CHAPTER 13

Minding the store

How to handle those sticky problems

Operating your business can present you with a lot of surprises or, with careful planning, can present a smooth, efficient and pleasant environment for your customers.

To achieve the image you want to create involves careful planning - this will take time - well ahead of your grand opening. Successful businesses build first on their policies. They are written to become solid points of reference, from which operating procedures are developed. For example, if you know what your sales policy is, you can then set up the procedures to carry it out.

When you or your employees are 'minding the store,' you will be using established day-to-day procedures of inventory management, credit, security, what to do in emergencies, how to handle customers, and so on.

There will always be crises, but you can avoid most of them if you have anticipated the solutions before they occur.

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In this chapter you will learn:

1. What business policies you should consider for your business, and how to apply them.
2. How to establish your own credit, as well as extend credit to your customers. How to apply for the major national charge card plans such as Visa, MasterCard and American Express.
3. How to collect past due accounts and how to write collection letters.
4. How to protect your business from fire, theft, pilferage and other threats.
5. How to provide for quality control, and then keep it working for you.
6. The principles of inventory management.
7. How to keep abreast of your industry through trade and/or professional organizations.

BUSINESS POLICIES

When you first start a small business, like most others, you will probably be your only employee. You are operating by yourself and making every business decision yourself - such as, where to locate, how to advertise, what merchandise and equipment to buy, what hours you are open.

As your business grows and you add employees, you will delegate some of these decisions to others, since you can no longer do everything yourself. When you delegate, you will want to make it very clear to your employee what area is to be his or her responsibility and how it should be managed. This will become your **Policy.**

Establish your policies with permanence in mind. Think them through carefully and write them down, so there can then be no question as to how you operate your business. Policies are not intended to help you through a crisis situation but to establish order and rules for running your business.

As you write your policies, keep in mind "Consumerism" and "Customer Relations."

Consumerism is a word that has recently crept into the language. It's an "umbrella" term for several laws defining what you legally **have** to do in such areas as labeling, contract wording, safety warnings, truth-in-advertising, etc.

Customer relations is what you **want** to do for your customer. It is your "goodwill." You can establish a written policy that says you and your company will be accommodating, helpful, courteous, reasonable, understanding, service oriented, efficient and all the other good things you might think of. But good customer relations is more than having the words written down - it is you and your employees putting them into practice.

IF WE DON'T GIVE YOU THE BEST SERVICE POSSIBLE, TELL US, WE'LL TRY HARDER!!
SERVICE DESK

Here are some examples of business policies you may want to consider:

1. **Returns Policy**

   Customers today have learned to expect a cheerful return on just about anything. It's best to accept a return, or at least an exchange, if the merchandise is in saleable condition and, sometimes even if it isn't, for preserving goodwill. Budget a built-in loss figure for such situations. You can, however, explain your return policy with small, appropriate signs such as:

   - Items for return or exchange will be accepted within 10 days of purchase when accompanied by sales receipt.
   - No Cash Refunds.
   - We will repair or exchange any defective merchandise.

2. Quality of Merchandise

As a retailer, your concern for quality merchandise starts with what you have accepted in the receiving room. After you've checked to be sure that the quantity you ordered has arrived on time, is fresh and in working condition, it's your responsibility to be sure it stays this way until the customer buys it. Make spot checks on the sales floor regularly.

The quality of merchandise (or service) you offer will quickly determine your reputation. If you can offer the ideal combination of high quality at a fair price, your customers will receive the **value** they expect for their money. And nothing will bring them back faster.

Because there is room in the marketplace for all levels of quality (good, better and best), look for the best opportunity for what you have to offer. Then be consistent. Build your reputation on consistency and value, then your customers will think of you, rather than your competition.

Your store's appearance will also reflect the quality of your merchandise. Clean floors, windows, restrooms are all important, as is the neat appearance of you and your employees. You will want the whole atmosphere of your store to reflect quality. If this is your intent (or demand), then your store appearance becomes part of your Business Policy.

3. Sales Policy

Other than offering the customer your fine product or merchandise, will you offer any discounts? Mark-downs? Many retailers promise customers such things as:

- Money-Back Guarantees
- Limited Warranties
- Free Home Trials
- Matching the Competition's Price, if Lower

Warranties from manufacturers vary and items usually must be taken to an authorized dealer for repairs. If that's you, what kind of reimbursement has the manufacturer agreed to give you?

Free home trials are a sales technique based on the assumption that if you can get a product into the home, chances are the customer will keep it. This can be risky, but the discretion is yours.

Will you offer product demonstrations? Some suppliers will do this for you free. Will you offer to teach customers, for instance, how to arrange flowers? Offer cooking classes? If you're renting boats, will you teach classes in boat safety?

If you guarantee the lowest prices, you must know your competition. Are they the specialty shops in your neighborhood? The mass merchant chain in town? The mail order house in New York? You'll have to be able to verify the prices, also, such as with a newspaper ad.

4. Delivery Policy

Very few merchants offer free deliveries, and you may not want to offer any at all. Should you choose to, figure the cost, add it to the purchase price and decide whether to use a local delivery service, UPS, mail or some other method. You may find free delivery gives you a competitive edge. Or, you must offer it to stay competitive. Whatever the case, count the cost before you take the plunge.

5. Smoking Policy

If there's a fire marshall's law against smoking, you'll be required to post it. You may also need to set aside areas for smoking and non-smoking. And if you simply don't want people to smoke, put up a courteous sign requesting that they not.

6. Food and Pets

If your decor or merchandise is easily damaged, you may not want to allow food or pets in your store. In the case of pets, a health ordinance may forbit them on the premises.

7. Dress Codes

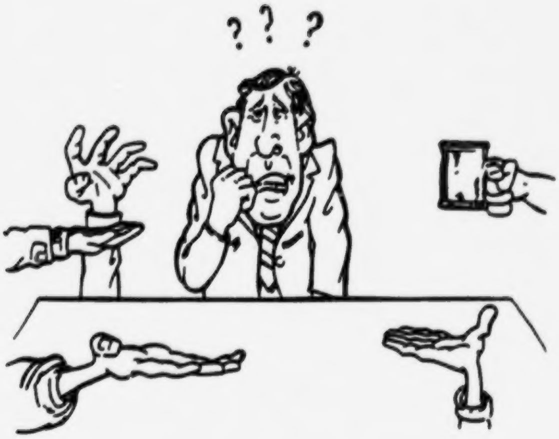
About all you can require by law are shoes and modesty. Uniforms can be a good way to establish dress codes, but to achieve what you want in employee appearance, consider the appropriateness of the applicant's dress when hiring.

8. Hours

Your decision when establishing business hours should be based on the shopping habits of your customers, your competitor's hours and, in some cases, the agreement of other merchants in your area to fix certain business hours. After you've checked these out, your policy can be whatever you want. Important to you, however, will be your sales goals and the number of employees needed to staff your business properly when you are open.

9. Gift Wrapping

Many small merchants offer free gift wrapping to attract customers. This may be to your advantage, since most larger stores cannot afford to. Using paper, boxes or an emblem identifying your store is also good advertising.



10. Contributions

Establish this policy quickly, because you will soon be confronted by fund raisers. Initially, a commitment to the United Way in your area can be used as an umbrella approach. You may wish to add one more "favorite" charity; this contribution will give you the answer to use when asked for contributions from other organizations. Since contributions are tax deductible, it may be to your advantage to give more. People will understand if you can't contribute during your start-up phase, but they will be back later.

These are some of the policies you may want to consider when establishing yours. Once you have determined what policies you want, make sure your employees know and understand them. Also, ask them to keep you informed of comments or complaints made about your business. As the owner, you need to know.

CREDIT

How to Establish Your Own Credit

Having already obtained financing for your business will give you the base you need to establish operating credit. For perhaps three to six months, you will be referring creditors to your bank and personal charge accounts for verification of credit. Once this is established, build your business credit by paying your bills when due. If you've planned your cash-flow carefully, this should not be a problem.

You can check your current personal credit rating by requesting a report from your local credit bureau, listed under Credit Reporting Agencies in the yellow pages. If there are several agencies, ask your banker, or a store where you charge, which agency they use - and call them. Should you have any negative or incorrect reports, ask that agency what steps to take to correct them.

If you're operating your business with a loan from your bank, repaying your loan as scheduled will be the best credit rating you can establish.

How to Extend Credit

You may begin by offering no credit at all, but as you expand you'll learn that in order to increase your sales and keep up with the competition, you will need to offer this service to your customers. In dealing with other businesses, it is often a must.

If you have the inventory and financial means to extend your own credit, you can offer your customers a charge account from your store. Be sure to figure the costs of bookkeeping, accounting, collecting and interest if you provide this service. There will also be forms, statements to send, postage, credit returns and so on.

If you are not in a financial position to do this, you can offer one or more of the national charge account plans now widely used, including:

Balloons
50¢
We accept
• VISA •
• MasterCard •

- American Express
- Visa
- MasterCard
- Diners Club

Accepting national charge cards is an essential service in order to keep up with the competition for certain types of retail businesses such as gift shops, clothing and furniture stores and restaurants, among others.

Verifying Credit

The most economical way to verify credit is to do it yourself. Ask for one or two credit cards the customer is presently using, or ask for a bank reference. If you feel it's necessary, call the accounts receivable departments of credit card companies and ask if this customer is current with his accounts. Or you can call the bank to ask if the customer's present balance will cover the cost of purchases just made.

One of the services your own bank may offer is to provide credit checks upon request. Tell the bank about your prospective account and they may be in a position to tell you whether or not to extend credit.

The Use of Credit Card Companies

Among the most popular consumer charge account services are Visa, MasterCard and American Express.

Visa/MasterCard

Visa/Mastercard sell their services to banks, not to the business owner, and both of these credit cards are handled in the same manner. The procedure is to call the bank in your community these companies do business with. (Your own bank will be able to tell you the name.)

You will sign an agreement with this bank to use their Visa/MasterCard services, and their representative will tell you -

- o How to handle charges and fill out forms.
- o How to handle credits and returns.
- o How to verify credit approval.
- o How you will be reimbursed.

Usually, you deposit your sales slips in the bank as you would a normal bank deposit, and the amount is credited to your account. At the end of the month, you are billed a percentage of your gross sales for the use of their system. The amount is approximately 2-1/2 percent.

American Express

American Express is different from Visa/MasterCard in that you contact the company's representative in your community. If the number is not in your telephone directory, or if you live in a rural area, call the national WATS line information operator at 1-800-555-1212 to obtain the closest toll-free American Express number. Then call them and a representative will get in touch with you to explain their system. Unlike Visa/MasterCard, you will mail your sales receipts to an American Express office, which in turn sends you a check for the amount of your sales less a service charge.

Other charge companies include Diners Club, Shoppers Charge as well as regional plans which your own bank can tell you about. Service charges vary for each charge card company, from one community to another, and from one bank to another.

Examples of forms for Visa/MasterCard follow.

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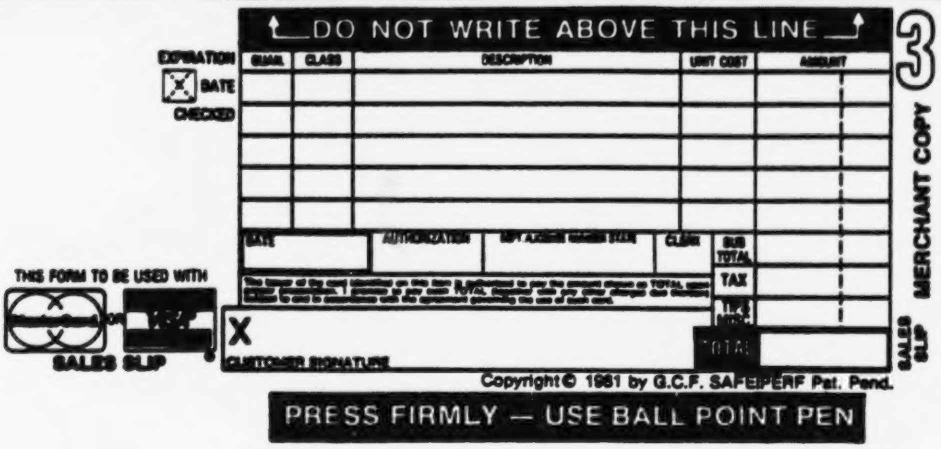

DO NOT WRITE ABOVE THIS LINE

EXPIRATION ☒ DATE CHECKED

QUAN.	CLASS	DESCRIPTION	UNIT COST	AMOUNT

DATE	AUTHORIZATION	[illegible]	CLERK	SUB TOTAL	
				TAX	
				TIPS MISC.	
X CUSTOMER SIGNATURE				TOTAL	

THIS FORM TO BE USED WITH MasterCard OR VISA

SALES SLIP

3 MERCHANT COPY

SALES SLIP

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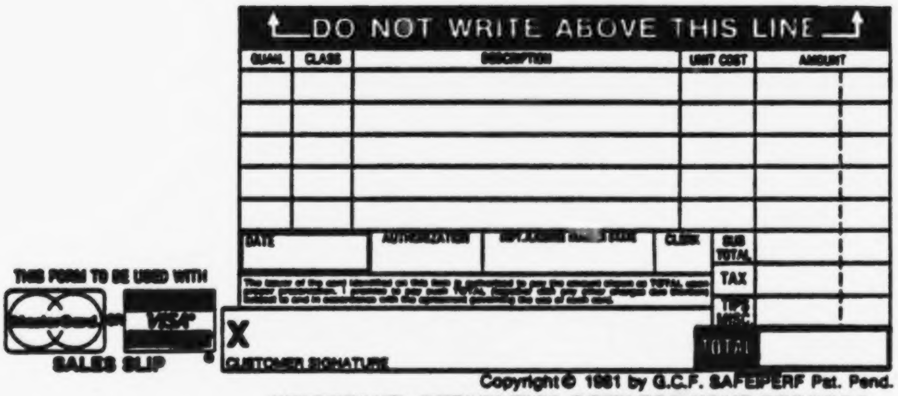
PRESS FIRMLY — USE BALL POINT PEN

5871941



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QUAN.	CLASS	DESCRIPTION	UNIT COST	AMOUNT

DATE	AUTHORIZATION	[illegible]	CLERK	SUB TOTAL	
				TAX	
				TIPS MISC.	
X CUSTOMER SIGNATURE				TOTAL	

THIS FORM TO BE USED WITH MasterCard OR VISA

SALES SLIP

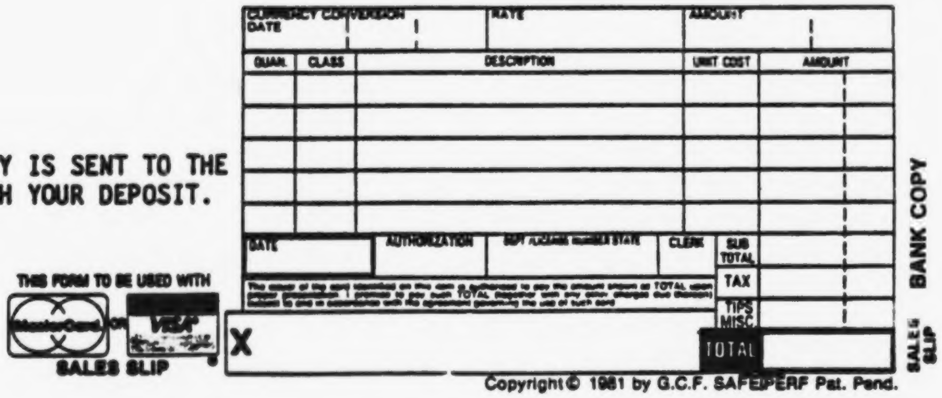
Copyright © 1981 by G.C.F. SAFEIPERF Pat. Pend.

IMPORTANT: RETAIN THIS COPY FOR YOUR RECORDS

CUSTOMER COPY

5871941

THIS COPY IS SENT TO THE
BANK WITH YOUR DEPOSIT.



CURRENCY CONVERSION DATE	RATE	AMOUNT

QUAN.	CLASS	DESCRIPTION	UNIT COST	AMOUNT

DATE	AUTHORIZATION	[illegible]	CLERK	SUB TOTAL	
				TAX	
				TIPS MISC.	
X				TOTAL	

THIS FORM TO BE USED WITH MasterCard OR VISA

SALES SLIP

BANK COPY

SALES SLIP

Copyright © 1981 by G.C.F. SAFEIPERF Pat. Pend.

CREDIT SLIP FORMS INCLUDE FOUR COPIES

A. Two copies for the merchant's records.

B. One copy to the customer.

C. One copy to the bank.

6711851

DATE	CLERK	DEPT.	REASON FOR RETURN	DATE OF SALE

QUANTITY	DESCRIPTION	UNIT COST	AMOUNT

CREDIT SLIP	SUB-TOTAL	
I request that the above cardholder account be credited with the amount shown as TOTAL because of the return of, or adjustment on, the goods, services and/or other items of value described, and authorize the bank to which this credit slip is delivered to charge my account in accordance with my agreement with such bank.	TAX	
MERCHANT SIGNATURE X	TOTAL	

THIS FORM TO BE USED WITH MasterCard or VISA

MERCHANT COPY

MERCHANT: RETAIN THIS COPY FOR YOUR RECORDS

6711851

DATE	CLERK	DEPT.	REASON FOR RETURN	DATE OF SALE

QUANTITY	DESCRIPTION	UNIT COST	AMOUNT

CREDIT SLIP	SUB-TOTAL	
I request that the above cardholder account be credited with the amount shown as TOTAL because of the return of, or adjustment on, the goods, services and/or other items of value described, and authorize the bank to which this credit slip is delivered to charge my account in accordance with my agreement with such bank.	TAX	
MERCHANT SIGNATURE X	TOTAL	

THIS FORM TO BE USED WITH MasterCard or VISA

CUSTOMER COPY

IMPORTANT: RETAIN THIS COPY FOR YOUR RECORDS

6711851

DATE	CLERK	DEPT.	REASON FOR RETURN	DATE OF SALE

QUANTITY	DESCRIPTION	UNIT COST	AMOUNT

CURRENCY CONVERSION DATE	RATE	AMOUNT	SUB-TOTAL	
I request that the above cardholder account be credited with the amount shown as TOTAL because of the return of, or adjustment on, the goods, services and/or other items of value described, and authorize the bank to which this credit slip is delivered to charge my account in accordance with my agreement with such bank.			TAX	
MERCHANT SIGNATURE X			TOTAL	

THIS FORM TO BE USED WITH MasterCard or VISA

CREDIT SLIP
BANK COPY

The Abuse of Credit

There are simply no rules for spotting a deadbeat or slow payer on sight. Your best protection is to verify credit as suggested earlier, and review your experience in six months. At that time, you will have some history and be able to budget for minor losses.

If you operate on a 10% net profit level, it may take ten or more "good" sales of the same item to make up for one non-paying customer. So it pays to keep the bad apples in the right perspective.

Follow-Up and Collections

A slogan among creditors is: You Made Your Sale - or Did You? No sale is complete until the goods or services are paid for. To facilitate collections, here are some courteous prompts you might use in your initial billings:

- Please pay from this invoice - no statement will be sent.
- Second Billing - A reminder . . .
- Third Billing - We have not received your payment as of (date). Please remit.
- Fourth Billing - Past Due. Please remit.

Flag the accounts that have not been paid: keep them in your follow-up file, cross reference them to the customer's file, highlight them in your ledger - but keep very close track. You don't want them to slip by. Remember, your "good" and "fair" credit risks want to keep their books in order, too.

When you have used all these initial reminders, you are now into the fourth month of non-payment and some personal letters are in order. These can be very delicate, and if you are at all uncertain of the basics of good business letter writing, by all means get someone to do it for you. If they are familiar with the account, so much the better.

Collection letters should be spaced 2-4 weeks apart. Their language is friendly at first, then becomes more terse and demanding. Following are letters that will give you a feel of what you may want to say:

Letter #1 - A Casual Reminder

Dear Mr. Lawrence:

Just a friendly reminder that your payment of $70.98 will be very much appreciated.

If your check is already in the mail, please disregard this notice and accept our thanks. If it is not, won't you take a moment to mail it today?

Cordially,

Letter #2 - A Strong Reminder

Dear Mr. Lawrence:

Another month has passed and your payment of $70.98 has not been received.

Since we have not heard from you, we assume the balance is correct and that your records agree with ours. Won't you therefore send us your check today or let us hear from you right away before the unpaid balance affects your credit standing?

Your cooperation will be appreciated very much, Mr. Lawrence.

Sincerely,

Letter #3 - The Discussion Letter

Dear Mr. Lawrence:

We were disappointed that we did not hear from you in response to our last letter concerning your overdue account of $70.98. Perhaps you are experiencing problems that make it difficult for you to pay this amount all at once. If you are having difficulty making the full payment, and you'll tell me about it, I'm sure we can set up an easy payment plan for you.

Please let me hear from you right away. We'll both be happier when this matter is resolved to our mutual satisfaction.

Sincerely,

Letter #4 - An Urgent Message

Dear Mr. Lawrence:

For several months, we have been writing to you about your long overdue account of $70.98. We must know your intentions immediately.

We realize, of course, that many overdue accounts are the result of unexpected financial difficulties. In these cases we make every effort to help our customers find a better arrangement for making payment. However, we have not heard from you and cannot offer such help until we know your situation.

Please send us something today. Our company is no longer in a position to maintain your account under the present conditions. If we do not hear from you at once, we will have no choice but to pursue other collection procedures.

Sincerely,

The final step, of course, is the collection agency or small claims court. These are not recommended. The small claims court can decide in your favor, but you still may not get paid. If you use a collection agency, it will take one-third to one-half of the amount due. In both cases, you will have lost a customer permanently and he or she may strongly criticize you to others. When there are thousands of dollars at stake, this may be worth it; but certainly not for small amounts. If you have to write off the amount as a business loss, do so and simply do not extend credit again to this customer.

As you sort out situations which will determine your credit policy, hang on to your enthusiasm and optimism. You're starting a good business; it's exciting; it's going to work; and chances are, your trust and good faith in people will keep you floating far longer than playing the skeptical Scrooge.

SECURITY

Security is not a matter of trust; it's a matter of common sense. And you will need to provide for it in the areas of fire, theft, pilferage and looting.

1. Fire

In addition to insurance, plan to have a sufficient number of fire extinguishers on the premises. Required exit doors and escape routes should be posted. Check with other tenants in your building to coordinate safety procedures and follow the precautionary rules your local fire department will provide. In some locations, fire inspections are conducted periodically and you will want to avoid a violation tag.

2. Theft

Get a list of guidelines from your local police department on dealing with theft. In nearly all cases it is recommended that you not try to apprehend the thief. If your business area employs a security guard, leave the procedures to this professional.

Other than a security guard, you can subscribe to an outside security system, use TV surveillance cameras, convex mirrors or window sticker warnings. Police in many communities are increasing the number of foot patrol officers, and an occasional visit from your neighborhood policeman is a great deterrent to theft. However proud you may be, don't brag about your sales and inventory.

If you have a lot of walk-in traffic and your location attracts people of questionable character, here are a few suggestions:

a. Keep your cash register at the front near the door.

b. Use plenty of lighting in the checkout area as well as outside the door for high visibility.

c. If possible, use large windows in front to make the checkout area visible from the outside.

d. Keep a minimum of cash in the register. Large bills should be transferred to a safe.

e. Attach a tape measure at the side of the front door. It helps in describing the height of a thief.

f. Avoid having rear or side doors which could be used by thieves.

By far the cheapest and often the best security is the good eyes of your employees. Train them in observing people and let them know your policies on apprehending shoplifters. Proper store layout will help you do this. Keep your eye on "tumble tables." Review your experience after six months to a year, and then decide if you want to add more security.

3. Pilferage

Hopefully, you hired the right people in the first place and your employees are honest. If they are handling very valuable merchandise, such as furs, jewelry, art, or large amounts of cash, they may need to be bonded. In any case, you're dealing with human nature and, as disappointed as you might be if an employee does steal from you, there are some things you can do to avoid such a situation before it occurs:

- Checkout counter - use two people
- The perpetual inventory (see Inventory Management)
- Internal audits - your accountant's periodic review of the books.
- Your review of the accountant's review.
- Coat racks instead of employee lockers.

It's good to keep these things in mind, but try to avoid a Big Brother image.

4. Looting

The chances of your experiencing a major disaster are small. There are a number of steps you can take to prevent looting. Contact Civil Defense before something occurs to find out what plans have been set up for emergencies. Check with other tenants to see what their procedures are going to be. Know ahead of time who from your company can be called in and where they can be reached in an emergency. Good business managers also keep copies of their most important records in a safe location off the premises.

A word on confidentiality. While confidentiality is not necessarily security in the sense of dollar threats, it could become such in the case of trade secrets. Confidentiality is concerned with communication. When something is "top secret," don't put it in writing at all. This is the extreme and doesn't do a lot for your records. If it is in writing, you can mark it "Confidential," "Private," "Company Confidential," "Return to Me." Verbal confidentiality is casual - e.g., "Go ahead and use my car this afternoon ... I just don't want to make it a policy for everyone."

In between these extremes are the good, safe general rules: Need to Know versus Nice to Know. Some people need to know, for instance, about a sales promotion in order to get ready for it; it's nice for everybody else to know once you start promoting it. Discretion and common sense will tell you the degree of confidentiality you need to maintain.

QUALITY CONTROL IN MANUFACTURING

There are four aspects of quality control from which you can devise a system. They are:

o Supplies and use of materials.

o Employee assignments and supervision of operations.

o Quality of tools.

o Communications.

PRO DRY CLEANING
where perfection takes a little
WHERE PERFECTION TAKES A LITTLE LONGER
SPECIAL
UNDERWEAR STARCHED

First, you will need to establish standards for your product and determine what your acceptable margin of error will be. For example, what shipping delays will you accept? How much overtime are you willing to pay to correct a problem? How much markdown will you offer for imperfect goods?

The methods for quality control are relatively simple and should begin in the receiving room.

1. Check every delivery for quantity and condition of items ordered.

2. After supplies and materials are turned over to production, use spot checks and final checks of finished goods before you approve for shipment.

3. Be sure employees are qualified for the tasks they're assigned to. Rotate employees, if possible, to relieve tedium.

4. Be sure tools are in proper working order and regularly maintained.

5. Develop a "final inspection" system for any product you make or sell. Check all shipments or deliveries against the order.

6. Discuss with your employees any suggestions they have for better methods of operation.

All of these methods are workable, but there is one more that covers everything. It's employee motivation. You're proud of your product, and when employees are proud of their own work, you'll get quality.

INVENTORY MANAGEMENT

It's All in the Timing

The Retailer's Motto - "The right item in the right place at the right time" - is the key to operating any kind of successful business and it's called Inventory Control. It can be tricky, but there are some principles to help you avoid disasters. **Stock Count** and **Perpetual Inventory** are the methods most widely used to determine how much inventory you have on hand.

1. **The Stock Count**

   The stock count can be obtained from the last preliminary visual "quick check" to an item-by-item count, recorded on a form and updated weekly or monthly.

Below is an example of how a beauty shop kept track of shampoo weekly. A similar form is used for other items. The beginning and ending inventory is recorded, and the quantity sold and on order is recorded. In this instance, the manager has not indicated the quantity she plans to have on hand - but it would have been helpful to her.

DEPARTMENT: Shampoo Week Ending______________

Item	Size	Begin Inv	Sold	Ending Inv	On Order
Apple Pectin	32 oz.	39	17	22	12
Apple Pectin	Tube	9	3	6	24
Quantum	32 oz.	8	2	6	
Botanical	16 oz.	12	4	8	

Another simple format, shown below, provides a weekly or monthly count of merchandise on hand and on order. Numbers in the left column are inventory control numbers assigned to items in inventory. A variety of forms are available from office supply firms.

SAMPLE FORM FOR WEEKLY STOCK COUNT

ITEM________________

	Date		Date		Date		Date	
	On Hand	Ordered	On Hand	Ordered	On Hand	Ordered	On Hand	Ordered
1								
2								
3								

It's time to reorder when the supply on hand will be used up or sold during the number of weeks it takes to receive reorders, plus a one-week cushion.

Let's assume from your experience that reordering will take four weeks for delivery. Your sales records show that you sell 10 units per week. Place your order when stock reaches 50 units (4 weeks + 1 week x 10 units per week). You may also have found that some vendors - particularly local ones - can give you faster delivery. If you can get next-day delivery, you may want to start using the second method - perpetual inventory.

2. Perpetual Inventory

This can be done manually by including it in your daily sales records. Tear off perforated price tags, indicating item number, size and color and put these in a box by the cash register. Subtract them from your stock on hand at the end of the day. Perpetual inventory is a simple matter of quantity on hand at the start of business, less the quantity sold, plus the number of returns equals the balance. Compare this total to your planned ending stock and the final figure will give you the quantity that needs to be ordered. In retail jargon, this is called "open to buy." It is the basis for ordering, and from this you can consider factors such as:

- Seasonal items
- Items to be featured in a future sale
- Dependability of vendor
- Holidays and closings
- What your competition is featuring

Arrange all the items to be ordered from one vendor on one form. List each item on one line on the form and if not ordering immediately, add items daily until you reach your deadline for ordering.

If you're hitting a crisis, you can always use "Rush" or "Special Attention," but find out what your vendor's policies and charges are for these services. A good relationship with your vendors can produce occasional miracles, but the best policy is to plan. So make periodic counts to verify your perpetual figures.

3. Stock-Sales Ratio

Some businesses prefer to work on a stock-sales ratio rather than the turnover formula described above. It may be wise to use both. The stock-sales ratio is arrived at by dividing the stock at the beginning of the month by the sales volume for the end of the previous month. If you're selling only one product, this is not a big task; but if you're selling a variety of items, the figures must be calculated for each item you carry or they won't tell you anything. This kind of clerical task should be delegated to an employee and can become part of a training program.

Knowing what your stock-sales ratios are won't tell you much unless you have standards to measure against. These standards will vary depending on the type of business you're in and the different products you sell.

As a general rule, try to keep the ratio as low as possible without continually running out of stock. Delivery times, seasons, styles, and other factors should all be considered.

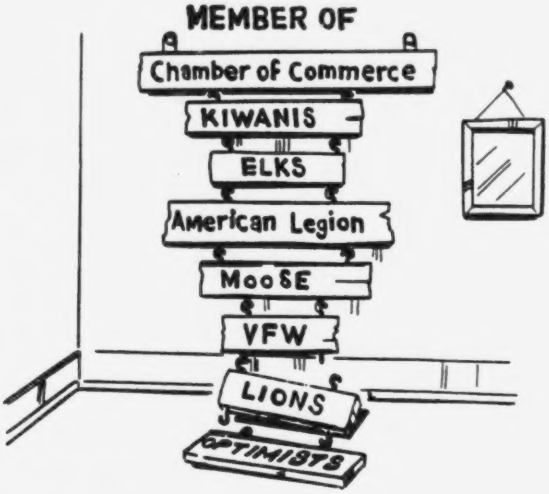
The very nature of inventory management is not exact, but if you start with some of the basic principles, then experience - at least one year's - will give you a solid foundation. You will then be able to record "Last Year," "This Year," and "Plan" - or:

12/31 (Last Year)	YTD (Current Year)	TOTAL (Current Year)	PLAN (Next Year)

Your best resource in learning how to run a business is other people. Whenever people gather, they love to talk about their business; and you'll find that some of the mistakes you've made are not original. People will have tips for you and you'll be able to offer some of your own.

With this in mind, take a look at some organizations to which you can belong.

Join at least one association in your field. Dues are generally very reasonable in proportion to the education and training you will receive and the contacts you will make. It's a great way to keep up with your competition. Volunteer to serve on a committee if you have the time. You could become a well-known spokesperson in your field. It's a good form of advertising for your business.



Other memberships to consider are:

1. **Business Associations**

These are groups of businesses in a defined trade area which meet to exchange ideas, hold art fairs and sidewalk sales, plan cooperative advertising, etc. They often plan Christmas and holiday decorations for the area, hold kiddie carnivals, hire musicians and balloons for promotions. These are great business boosters, and you will want to participate.

2. **Chamber of Commerce**

The Chamber is an organization of businesses from the national, regional, state and local levels. If you're in a metropolitan area, there may be subdivisions such as a "West Suburban Chamber of Commerce."

Chambers operate with paid staffs and support both business development and total community development. Their staffs lobby in legislatures for bills of interest to members. They sponsor seminars and speakers on a number of topics. Sometimes the C of C will plan a community-wide festival, such as a winter carnival. They promote tourism. They also raise money and contribute to projects that will benefit an entire metropolitan area - such as downtown developments, athletic stadiums and so forth.

3. **Service Organizations**

These are organizations such as the Jaycees, Kiwanis, Rotary or Optimist Clubs. Membership is generally open to everyone, whether business people or not, and the groups generally support some particular cause - such as raising money for seeing-eye dogs for the blind; building a group home for handicapped children; sending inner-city youth to camp. They schedule outside speakers for their meetings to present views on topics of interest to their members.

You may not have a great deal of time to be an active member in any of these organizations as you start your business, but it's wise to join one or two to exchange ideas and meet people.

You have just completed the chapter on Minding the Store. In this chapter you have learned:

1. The importance of establishing business policies before tackling procedures.
2. Procedures for establishing your own credit, extending credit to customers, and avoiding credit abuse.
3. The steps to take in security precautions for fire, theft, pilferage and looting.
4. Quality control can be achieved through good management of supplies and materials, good tools and good employee communications.
5. The principles of inventory control; effective methods for having the right item on hand to sell.
6. The value to your business of having membership in organizations.

CHAPTER 14

Ring up sales through salesmanship

Salesmen are made, not born

One of the most important factors in making your business venture a success is whether you can sell your product or service to those who need, want or desire it. The "best" product or service in the world is of little value if you can't persuade people to buy it.

You have already laid the groundwork for successful selling. Your market research in Chapter 3 has helped you determine: what you are trying to accomplish; who you could be selling to; who your competitors are; how you compare with them; how consumers behave; and, what the trends are in the marketplace. You have evaluated the problems and opportunities you will face in marketing your product. You have decided where you will concentrate your sales efforts. You have developed a pricing strategy and forecasted your sales. You have decided on a location for your business and a method of distributing your products or services. And you have planned an advertising and public relations campaign to create awareness and generate interest in your business.

Now, you are ready to sell your product or service. In this chapter you will learn:

1. What selling is.
2. What it takes to sell successfully.

446

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3. How to "read" the buyer and adapt your sales presentation to his motives and personality.

4. The steps of successful prospecting.

5. How to prepare the sales presentation.

6. How to get off to a good start.

7. How to assess the prospect's needs, wants, problems and goals.

8. How to present your product or service to meet the buyer's needs.

9. How to work out the problems that keep him from buying.

10. How to close the sale.

You will learn how these basic principles apply to retail selling and to personal, telephone and direct mail selling.

SELLING: WHAT IS IT?

Selling is an Art

It takes more than a great product or service to build a business. It takes customers to buy that product or service. Customers buy only if you can show them they have needs your product or service can satisfy. They buy only if you can translate the features of your product into customer benefits.

Successful selling depends on your ability to:

1. Get the buyer's attention.

2. Uncover his needs, wants, problems and goals.

3. Show how your product or service will satisfy those needs.

4. Work out the problems that keep him from buying.

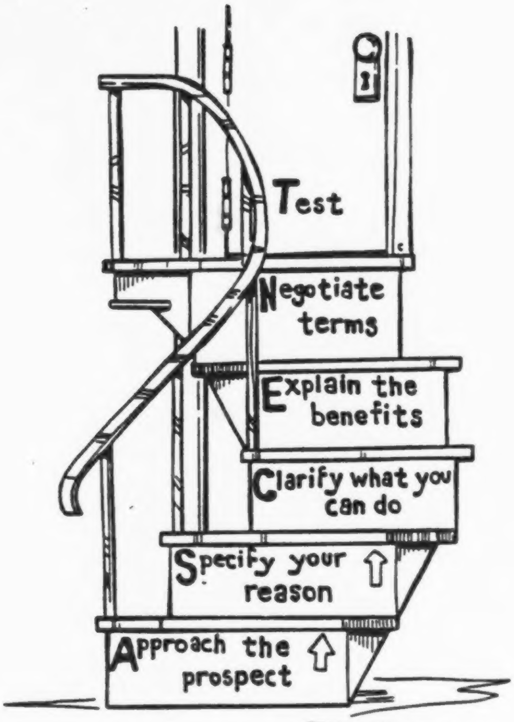
5. Ask for his business.

The future of your business depends on the art of selling. If you take advantage of the opportunity to serve people, to satisfy their needs and to solve their problems, you create satisfied customers. It is satisfied customers that continue doing business with you and recommend your products and services to others.

Selling is Communicating

When you sell, you communicate to your prospect something about yourself and the product you are selling. The process can be viewed as a series of steps, each involving a higher level of communication.

Let's start at the bottom step. First, you **approach** your prospect and introduce yourself and your company. Then you **specify** your reason for being there. Next, you **clarify** what your product or service will do and **explain** how these features will benefit the prospect. Then you **negotiate** terms and conditions that stand in the way of the buying decision.


Test
Negotiate terms
Explain the benefits
Clarify what you can do
Specify your reason
Approach the prospect

Source: The Education Group, Division of Human Development Systems, Inc., 1980.

Finally, you test the effectiveness of your communication by asking for the sale. NOTE: An easy way to remember these "steps" upward is that the first letters spell A S C E N T.

Like effective communication, selling isn't a monologue. It's a two-way process. A sale isn't in sight until the prospect becomes involved. You have to be skilled at asking questions and active listening to uncover his needs and interests. You have to "read" the prospect and adapt your message and communication style to his personality and buying motives. Through effective communication, you build a relationship with the customer based on trust and confidence. This forms the foundation for the sale and for future sales.

Selling is Giving the Customer a Reason to Buy

Selling is the art of persuading the prospect to buy. To be persuaded to buy, he must have a reason: he must be conscious of a need and believe that you and your product or service will satisfy that need. Selling is giving him a reason to buy. It's removing his doubts and reason for not buying.

Types of Selling

In selling your product or service, you can communicate your message to the prospective buyer personally, by telephone, or through direct mail. Depending on your business, any one or combination of the three types of selling will work best for you.

Personal selling involves face-to-face contact between the seller and the buyer. The sales presentation is made in person. In a face-to-face presentation, not only do you verbally communicate, but you can learn a lot about the prospect by observing expressions, behaviors, gestures and other nonverbal cues. The prospect can be directly involved in the selling process because he has the opportunity to touch and see your product. You can also involve him through the use of visual aids or sight-sellers.

Telephone selling saves time, money and energy. You can talk to a lot more prospects than personal selling would allow in the same amount of time, while eliminating the cost of travel. Because you lack visual cues, you have to rely more on your question asking and listening skills to get the information you need. It's also more difficult to "sell yourself" over the phone. Your smile, enthusiasm and personality must be projected totally through your voice. The telephone can be used to: get background information on a prospect; qualify him before a personal sales call; get an appointment; or, make the sale.

Direct mail continues to be an effective and profitable way to sell despite increases in the cost of postage, printing, paper, and mailing operations. Mailing lists cover every type of market and customer base and are available from a variety of sources. Direct mail may be used to: solicit inquiries about your product or service; pave the way for personal sales calls; and to sell products by mail order that are not usually available in stores or through other sources. Sales letters, brochures, order forms, catalogs, circulars, and other sales literature make up the direct mail package. To minimize the number of prospects who will toss your mail into the wastebasket without even reading it, a lot of care must go into putting a package together that will get the prospect's attention.

WHAT DOES IT TAKE TO SELL?

What Makes a Successful Salesperson?

It is often said that 20% of the salespeople get 80% of the sales. What do these top performers have that the rest don't? What makes them so successful?

To answer this question, let's first look at the reasons so many of them fail. A study by Dauner-Johnson in 1979 revealed the ten top problems leading to the termination of salespeople:

1. Poor work habits.

2. Lack of resourcefulness, initiative and fact-finding.

3. Inability to close the sale.

4. Unwillingness to canvass and establish new contacts.

5. Slow and unresponsive in overcoming objections.

6. Lack of self-evaluation and self-improvement.

7. Refusal to prepare and keep records.

8. Lack of creativity.

9. Lack of self-confidence and sustained enthusiasm.

10. Negative attitude and lack of sales interest.

So what does it take to be successful at selling? The answer is ability, skill, motivation and a "selling" personality.

To successfully sell your product or service, you and those who sell for you must have the ability to plan and organize a sales presentation. You must have extensive knowledge of the product or service you sell and personally believe in its value. You must be able to recognize the characteristics of a qualified buyer.

You must also be a skilled communicator. You must know what information to give and when to give it. You must know what questions to ask, when to ask them, and when to listen.

You must be perceptive to the motives and personality of the buyer. You must be able to anticipate common objections to your product or service and be skilled at overcoming them. You should be able to recognize buying signals, and know how and when to put on the close.

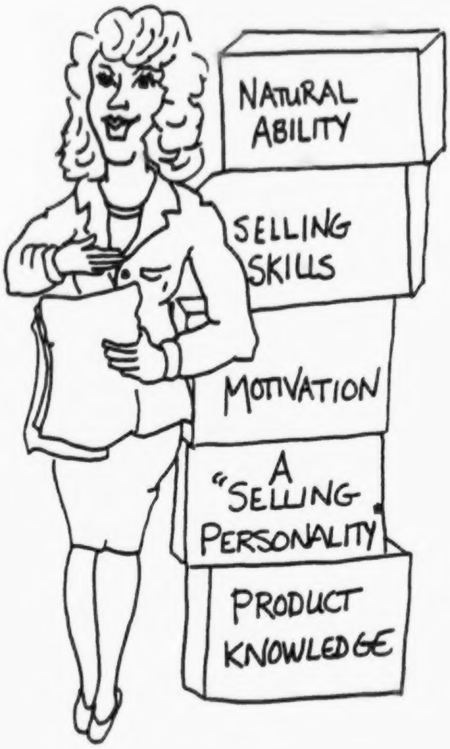
What about "personality"? Successful salespersons "sell themselves". This personal relationship is the foundation on which the sale--and possible repeat sales--is made. This means that the salesperson with the more desirable personality will get the order if the product or service has quality and is competitively priced.

Here are some personality characteristics salespersons should have, especially for building a repeat-sale type of business:

Reliability: If you make a statement, you mean it. If you make a promise, you keep it.

Honesty: Your sales pitch is made without false claims. You are personally sold on your product or service.

Sociability: You like people and are willing to accept them as they are. You enjoy the opportunity to meet new people.


NATURAL ABILITY
SELLING SKILLS
MOTIVATION
A "SELLING PERSONALITY"
PRODUCT KNOWLEDGE

Self-Confidence: You are sure of yourself and your abilities. When the prospect says "no", you don't take it personally.

Positive Attitude: You can go and sell, day after day, even if all your preceding days have been failures. You take your failures in stride. You learn from them to develop a successful selling technique.

Enthusiasm: You are excited about your product or service and project this excitement to your prospect.

Simplicity: You adhere to the KISS (Keep It Simple, Stupid!) principle. Your goal is to sell, not impress the prospect with your intelligence and vocabulary. You talk in language he understands.

Courtesy: You are polite, considerate, and treat the customer with respect.

Personal Appearance: The customer "buys" you as well as the product. From his point of view, if you take pride in your appearance, you take pride in your product. Your clothing and general appearance are appropriate for your type of business and your target market.

Product Knowledge

Successful selling requires extensive product knowledge. Half of your sales presentation is giving information about your product or service. The prospect's interest may have been aroused by your advertising, a friend, or your initial contact. His first motivation, at this point, is the need for more information. He expects you to be able to provide it.

You should be prepared to answer all of your prospect's questions with accuracy and confidence. When you show confidence in your product, your prospect is more likely to do so.

Product knowledge builds respect and respect leads to repeat sales. If your product isn't a repeat item, the respect you earn from a satisfied customer may lead to a word-of-mouth referral.

Knowing your product is essential to understanding what it can do for your prospective buyer. It puts you in a good position to overcome his reasons for not buying.

What should you know about your product or service? Before you try to sell it, you must understand its most important features. A **feature** is a characteristic of a product or service. Some examples of product features are: price; size; weight; color; finish; style; function; design; durability; guarantee; warranty; length of service; appearance; and reputation. Some examples of service features are: what the service does; where the service goes; price; how often the service is provided; and how long it takes to provide the service.

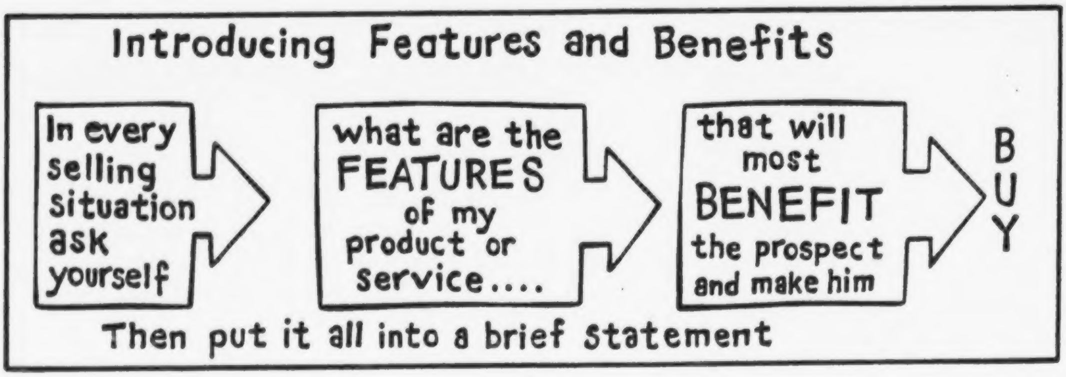
Here are some specific examples of how product features can be stated for the prospective buyer:

1. "Our vacuum cleaner comes with a 5-year warranty on all parts and labor."

2. "Our airline offers four non-stop flights to New York every business day."

3. "We have been manufacturing furniture for 52 years."

4. "These sweaters are 100% wool and are available in 6 colors and 3 styles."


Introducing Features and Benefits
In every selling situation ask yourself
what are the FEATURES of my product or service....
that will most BENEFIT the prospect and make him
BUY
Then put it all into a brief statement

A **benefit** states what the product or service can do for the buyer in any of the following ways:

1. Saves the customer money.
2. Saves the customer time.
3. Solves the customer's problem.
4. Increases the customer's business.
5. Improves the health or safety of the customer, his family or his employees.

Some examples of benefits are:

1. "Because our vacuum cleaner is so lightweight, it is easier to carry up and down stairs."
2. "Our water conditioning system will make your cleaning easier because it prevents the build-up of lime deposits on your bathroom tile."

3. "Our secretarial service will save you money because you only pay for the services you actually use."

How do you and those who sell for you acquire this product knowledge so essential for successful selling? Depending on your business, any of the following may apply:

1. Being directly involved in researching and developing new products and services.

2. Formal training sessions and sales meetings.

3. Examining your product.

4. Reading all of the manufacturer's literature.

5. Visiting the manufacturer and understanding the manufacturing process.

6. Talking to other people who sell the same product or service.

7. Reading pertinent articles in magazines, journals and newspapers about your product line or type of service.

8. Talking to service or repair people whose job is product maintenance.

9. Getting "hands on" experience by using the product.

10. Listening to what customers have to say about the product or service.

11. Reading and studying about competing products or services. All selling situations call for a thorough knowledge of your competition in order to make accurate comparisons as to price, features and benefits.

UNDERSTANDING THE BUYER

We have said that selling is communicating. Just like effective communication, successful selling is related to your ability to understand people. Every customer is different. The sales approach that "sells" one customer may turn off the next. In selling, you must learn to be flexible in any situation. To develop a good working relationship, you need the ability to adapt your approach to the prospect.

Buying Motives

Why do customers buy? Different things motivate different people. A customer's reason for buying may be either subjective or objective. An objective buying motive is a result of reasoning. Most purchases of this nature are planned. Features such as price, economy, efficiency, durability, simplicity, low maintenance, good workmanship, and availability of parts and service enter into the buying decision. Some examples are:

1. A customer plans to insulate his house to reduce energy consumption and save money.

2. A customer plans to hire a lawn care service to save time.

Subjective buying motives stem from personal feelings. They may be associated with security, ego, self-satisfaction, entertainment, or pleasure. For example:

1. A customer buys a pin stripe suit to look more professional.

2. A customer buys lotion for smoother skin.

3. A customer buys from a certain salesperson because he likes and trusts him.

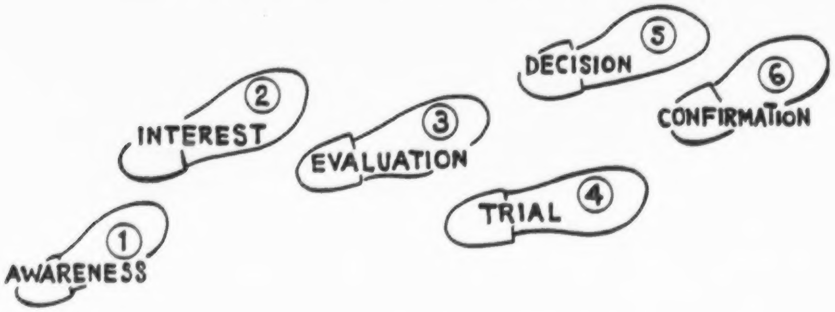
4. A customer buys new and innovative products because he likes to be among the first to recognize an opportunity.

5. A customer shops at a certain store because his friends do.

Reaching the Decision to Buy

The customer usually goes through a series of predictable steps in reaching a decision to buy a product or service. By understanding these steps, you are in an excellent position to assist the prospect in reaching a buying decision.

STEPS IN REACHING THE BUYING DECISION



The first step is **awareness** of your product or service. This is usually created through advertising and publicity.

Next, he becomes **interested** as your product or service appeals to an identified need. Only when the prospect becomes conscious of a need will he move to satisfy it.

Next is **evaluation.** The customer evaluates the need to determine if it is important enough to do something about. He weighs the need against others he is conscious of, and assigns top priority to his need for your product or service. He also considers possible alternatives for solving his problem.

Next, in the **trial** step, he seeks proof that what you have told him is factual and your solution to his problem will work for him. He may talk to other users of your product or service or anyone else who may give an unbiased opinion. He may also "try out" the product.

Finally, he **decides** to buy. Frequently, the decision step is followed by a post-purchase phenomenon the customer goes through to **confirm** his buying decision. Even though he has made the mental decision to act, he may suffer a temporary case of "buyer's remorse".

Roles in Buying

Your time is valuable. Common sense tells you that in making contacts and sales presentations, it's the decision maker you want to talk to. What about the other people involved in buying the product? How will they influence the final decision?

There are five roles in buying. They may all be assumed by the same person but frequently more than one person is involved.

Initiator: The initiator first informs the prospect of your product or service. It may be a satisfied customer, it may be you, or it may be the prospect himself recognizing an unfulfilled need.

Influencer: The influencer is the person who influences the buying decision. It may be a spouse, a friend, or a co-worker.

Decider: The decider makes the ultimate decision to buy with input from the influencer.

Purchaser: The purchaser has control of the "purse strings".

User: The user is the person who will directly benefit from the product or service.

Successful selling requires you to understand buying roles and appeal to everyone involved in the buying decision.

Buying Personalities

You will find that in selling your product or service, you will consistently meet certain types of prospects. Here are some general buying personalities you may encounter and how to respond to them:

The **"Show Me How It Works"** buyer likes to analyze and understand everything about the product before buying. He expects a logical and detailed sales presentation and will ask a lot of specific questions. He will buy only after carefully considering prices and features of alternative products. He is slow to make a decision. You have to be patient, respond to all of his questions, and appeal to his logic.

The **"Let's Get On With It"** buyer is only concerned about what your product or service will do for him. He wants you to quickly solve his problems and deliver on your promises. Instead of a long, detailed presentation, he wants to get down to business. Give him important product information right away but don't bore him with great detail. He expects a fast-paced, hard-hitting presentation.

The **"I Know What I Want"** buyer is ready to buy. He is decisive and confident and has already decided on a specific brand or type of merchandise. Give him immediate, professional and personalized service. He understands the steps in making a sale and wants to be sold.

The **"I Want You To Like Me"** buyer buys when he feels comfortable with the seller. He is more interested in what others will think of his buying decision than the actual benefits of the product. He usually can't make the decision to buy alone and needs the approval of those affected by the decision. You can appeal to this type by showing how your product or service can benefit other people or improve relationships between people.

The **"What Do You Think"** buyer isn't sure about what he wants and doesn't trust his own judgement. He needs expert guidance in making a decision and constant reassurance that he isn't making a mistake. You must show confidence in your product to appeal to this type of buyer. Keep choices to a minimum. If he wants, make the decision for him.

The **"I Want To Be A Hero"** buyer has a strong, charismatic personality. He's a leader and feels others look up to him for new and innovative ideas. He wants his successes to be recognized. You can appeal to him by showing how your product can solve problems and make him look good. Be sure to applaud his decision to buy.

The **"I Dare You To Sell Me"** buyer is motived by insecurity. He lacks self-confidence and feels a need to prove his worth to everyone. If you let him "toot his horn", the chip on his shoulder will gradually disappear and you can get down to business.

Other Buyer Characteristics

Age is another buyer characteristic that might affect your selling approach. Younger buyers are often searching for answers but aren't sure what to ask. They want you to tell them about your product or service: "You should use our service because it will save you money."

Middle aged buyers usually know what they want. They want you to show them what your product can give them: "Let me show you how our service will reduce your labor costs."

Older buyers know what they want and have dealt with a lot of salespeople. They deserve respect for what they have learned through years of experience: "What service would work best for you?"

You can also adapt your presentation style to the buyer's speech pattern, mannerisms and behaviors. If he speaks rapidly, you should do the same. If his speech is slow and calculated, yours should be the same. If his behavior is rigid and formal, you should present yourself and your product as formally as possible. If he is informal, you can make a more relaxed presentation.

" Theres something I like about you... but I can't put my finger on it.."

RETAIL SELLING

There are two principal forms of personal selling: **Retail Selling** and **Field Selling.** In retail selling the potential customer comes to the business establishment where the sale takes place. Field selling calls for the salesperson to seek out the potential customer by making calls at his place of business or home.

In field selling, which we will discuss later, the salesperson must **locate** prospects and convert them into customers. However, in retail selling the prospect comes to the salesman, thus making his job easier.

Many customers would submit that personal selling is a lost art in the retail store. In many cases, they would be correct. Many larger multi-unit retailers have stressed self-service, larger assortments, and lower prices at the expense of good personal selling.

Why would a customer shop in a small retail store when he can probably buy the same product for less at a large chain store? The answer lies in personal service. The success of the small retail store is directly related to how well its salespeople individualize their selling skills. By emphasizing good personal selling, the small retailer can gain a competitive edge over the bigger stores.

Store Appearance

The appearance of your store or office gives your customers an important first impression. You may not be able to afford elaborate, eye-catching displays. They might not even be appropriate for a small-engine shop, for example, or a hardware store. Whatever the nature of your business, be it blue collar or high fashion, you can be sure of one thing. Nothing puts a customer off more than sloppily displayed merchandise, dusty shelves and dirty floors. On the other hand, neatly arranged, easy to locate merchandise, and pleasant, clean surroundings reassure a customer. These things show that you're a professional. You care about your business, and you care enough about your customers to provide an attractive atmosphere to do business in.

Good Retail Selling

Personal selling at the retail level is the matching of customer needs with the retailer's merchandise. If the salesperson makes a good match, a satisfied customer is created and a long-term, profitable relationship can be established. To assure good personal selling in your retail store, you must:

1. Recruit and hire salespeople with a "selling" personality. The best way to build business and reduce turnover is to hire the right people in the first place. Write down what a sales job in your store would require a person to do. This "job specification" will

461

provide a guide for appraising the capabilities of prospective employees.

2. Train and develop your salespeople. Include orientation, product knowledge, communication skills and sales training. Make use of regular and frequent sales meetings to update your employees on the features of new merchandise, store policies and sales strategies. Use the time to help them improve their selling skills.

You will, in most cases, be hiring and training sales help for your retail business. The key word here is training. Even the most promising new hires cannot perform unless they know and understand their job responsibilities. Develop a simple, but effective, training outline for each position from the assistant store manager on down to the part-time college student sales clerk. This outline should list the responsibilities of each position and all the information your employee will need to carry out those responsibilities.

For example, if you expect your assistant manager to schedule the other employees, be sure to include information on the shifts, length of lunch breaks, and number of people you want on the floor at all times. You should also include a copy of the scheduling form. This may sound obvious and elementary; however, unless you have all the information written down to the smallest detail, it's easy to forget, especially when you're in a hurry to train an employee.

The Buddy System

As your business grows you may not be able to do all the training yourself. The assistant manager could take over this responsibility. If, in your judgement, he or she already has too many responsibilities, you might consider the "Buddy System". Under the Buddy System you will assign a new hire to your most trusted, experienced employee. The senior buddy would then be accountable for the junior buddy's performance and job satisfaction.

Dressed to Sell

Besides job descriptions, the training materials provided to your employees should include a dress code. The standards you establish will depend on what type of product you are selling. The sales clerks in an upscale boutique would wear high fashion;

the employees in a small engine shop would probably wear jeans. Also, you might want to consider how much handling and lifting your employees will be doing. If there is a lot of either involved, you might recommend slacks for the women and safe, sturdy shoes for everyone. Of course, clothes of any style should be clean and in good repair. Good grooming, too, is a must. Like the store itself, you want the people working in it to make a good impression on your customers.

The Approach

While the steps to retail selling are basic to all selling, there are some major differences in the first step. Instead of prospecting and seeking out the customer at his home or place of business, the customer comes to you. He should be greeted by a neat, well-groomed, enthusiastic salesperson who has the desire and ability to serve people. The salesperson shouldn't be over anxious and rush the customer like a football player. On the other hand, waiting too long gives the customer the impression that no one is interested in making the sale.

The opening greeting should put the customer at ease and get his attention. Two general approaches can be used to greet the customer--the conversational approach and the merchandise approach.

The **conversational approach** should be used to encourage the customer to indicate what he is interested in. It can be used whether or not you recognize the customer. It is especially effective if you recognize the customer's name and use it: "Hi, Jane. It's good to see you! Did everyone at the party like your new silk dress? What can I show you today?"

The **merchandise approach** should be used when you see the customer looking at or touching a specific item. It immediately directs the topic of conversation to the merchandise. To use it effectively without appearing pushy takes a lot of skill. Some salespeople blend it with the conversational approach: "Did you know all the sweaters on this table are 25% off today?" "We just received these knit dresses. Feel how soft the fabric is!"

One approach should never be used; and, unfortunately, it is used most often: "May I help you?" At best, the customer will say, "Just looking." At worst, he'll say, "No." The sale is often lost because there's nothing left for the salesperson to say.

Making the Retail Sale

Determining the needs and wants of the customer begins when he enters the store and continues throughout the sales presentation. Start by observing the customer: Does he march directly to a specific display? Does he take his time walking through the store, looking at various merchandise along the way? Does he immediately put one item down and pick up another? Does he go back to look at an item for the second time?

Asking questions and listening also helps determine needs and wants. How does he intend to use the merchandise? What preferences does he have for color and style? What other conditions must the merchandise meet?

In a retail situation, the way to sell benefits is show and tell. While showing the merchandise, you should tell about its features and benefits. Allowing the customer to handle, try on, or try out the merchandise helps you determine which items are of most interest. It also appeals to several of the customer's senses. You should continue to show different merchandise until the customer's interest is focused on one or two choices. This is the moment to wind down the sales presentation and move toward closing the sale. Showing more merchandise at this point will only distract his attention.

All of the techniques previously discussed for handling objections and closing the sale are effective in retail selling situations.

Plussing the Sale

Buying one item usually creates a need for accessories or attachments that would help the customer better use and enjoy the initial purchase. Selling this additional merchandise is "plussing the sale".

Plussing the original sale creates a win-win situation. The customer benefits because it often saves him the time necessary to run back to the store for overlooked items. Also, quantity purchases are frequently offered at savings to the customer. You benefit because your sales volume is increased.

Skillful salespeople look for opportunities during the sales presentation to help the customer discover unrealized needs. One technique for plussing the sale is to suggest "go-withs":

Original Item	**Go-With**
shirt	tie
shoes	polish
bed sheets	pillow cases
placemats	napkins
draperies	rods and hooks
lawn mower	grass bag

Other techniques for plussing include:

1. Suggest that buying a larger quantity will save time and money.

2. Telling the customer about specials they might have overlooked.

3. Pointing out new merchandise.

4. Reminding the customer of a special occasion for gift giving.

JANE: THE STORY OF A WELL-DONE SALE

Now let's look at the best approach to take to customers who do want our help. Jane, a sales clerk in the Savory Gourmet Cookware Shop, can demonstrate for us. A young woman in her twenties has just walked into the store. After greeting the customer and letting her browse for a few minutes, Jane decides that she looks like she might need some help. The customer is standing in the pots and pans section looking over the displays. Jane goes up to the customer and the following conversation takes place.

Jane: These enamel pans are very durable. We just got them in last week from Denmark. They're specially treated so they don't chip or discolor.

Customer: Yes, they are nice. One of my friends is getting married next week and her bridal registry indicated that she needed a frying pan.

Jane: This particular line of cookware has an excellent model of frying pan. Here, let me show you.

She picks up a frying pan from the shelf.

You can see that the sides are much higher than on most other frying pans so food won't spatter as much when it's cooking. Also, this pan is very versatile. Your friend can use it to bake a roast in the oven; then she can make gravy or sauce on the stove. I mentioned that it won't discolor easily, and it comes in just about every color you can think of--even pastels!

As it happens, we're offering a special introductory price on the cookware. Ordinarily, the frying pan sells for $30.00. You can buy it today for $19.95.

Customer: Hmmm. That's not a bad price, but I was thinking of spending a little less--maybe around $15.00.

The customer moves over to another display.

This pan looks a lot like the one you showed me, but it's only $14.00.

Jane: Yes, you would have to pay a little more for the other pan, but notice the differences. The one you have is smaller and the handle is shorter. The Danish pan I showed you would be a lot safer and easier to manage. Also, the handle is heatproof. You don't have to use a pot holder. With this one, you do.

Customer: Well, maybe it would be worth paying a little extra, then. I'd hate to have Sharon burn herself with an unsafe pan.

Jane: Does Sharon have a preference for one color over another?

Customer: Come to think of it, Sharon did tell me she was planning to do her kitchen in red and black. Does this pan come in red?

Jane: Yes, it does! We also have a spatula with a red handle designed to be used with this cookware. Wouldn't that make a lovely gift for Sharon?

Customer: Yes, they would. You can't really use one without the other, I guess.

Jane: Your friend will get a lot of use out of this pan. She'll appreciate the 5-year warranty, too. May I wrap it for you? There's no charge.

Customer: No, thank you. If you can just get me a box, I can wrap it myself.

Jane: Certainly. I'll get it for you now.

As Jane is going back to the stock room, she notices another customer waiting at the counter.

Jane: Good morning! I'll be with you in a minute!

After she has put the pan and spatula in the box, and rung up the transaction, Jane closes the sale with the words every customer deserves to hear.

"Thank you! I hope you'll stop in again."

Jane Continued: A Recipe for Successful Selling

Jane did an excellent job of selling on this transaction. First and most important, she knew her stuff. Customers are interested in three things: features, benefits and price. Jane could describe the **features** of the pan (color, size, the material it was made of). She also gave her customer good reasons to buy the pan, its **benefits**. The pan was specially treated so it wouldn't chip or tarnish; it was designed with higher sides, to keep frying food from spattering on the walls; it was safer to use. Finally, she knew prices, both regular and sale.

Jane didn't just throw a lot of dry facts at her customer. She sparked her interest with some suggestive selling. Customers like to hear about new things. Jane emphasized to her customer that the pans had just come in from Denmark. Sale is a magic word, too. Jane made a point of mentioning that the pans were on special that week only.

Jane demonstrated another valuable sales technique when the customer was considering a less expensive model of pan. She knew that there is a lot more to good value than the price. Sometimes it's worth paying a little more for the better quality product that will last longer and work better. When Jane suggested that the more expensive pan might be a better investment, she was "trading up". Trading up doesn't mean taking advantage of the customer. It doesn't mean tricking him or her into spending more money than he or she wants to. It **does** mean helping the customer to buy strategically, by choosing either a larger size at a more efficient price or a higher quality product at a higher price.

Jane also remembered to suggest "go-with" items.

The Close: Less Is More

Closing a sale is a delicate art. In this area, too, Jane's performance is a masterpiece. Throughout the sale, she has avoided trying to pressure the customer. She has simply provided the customer with information. The customer then used this information to choose the Danish cookware over the cheaper model. Once she arrived at this decision, Jane **confirmed** it. ("Wouldn't that make a lovely gift **along with the pan?**") In addition, she also **reinforced** the customer's choice by asking **preference** questions. ("Does Sharon prefer one color over another?" "May I wrap it for you?") She reinforced the decision again by complimenting her customer on her choice and pointing out yet another benefit. ("Your friend will get a lot of use out of this pan. She'll really appreciate the 5-year warranty, too.")

Probably the most important thing to notice about Jane's closing technique is that she **knew how to shut up.** Today's customers are, as a rule, sophisticated and knowledgeable. The motormouthed, backslapping, overbearing style of selling turns them off. Once they have made a decision, customers neither want nor need a stream of sales chatter. They aren't convinced by it. On the contrary, they start to wonder if something isn't being put over on them. After confirming and reinforcing her customer's decision, Jane didn't waste any time with needless talking. She got a box, rang up the transaction and let the customer get on with her other business.

What Every Customer Needs to Hear

Note that although Jane didn't say much when closing the sale, she did **not** forget to thank her customer. This point

cannot be emphasized too much. By patronizing your business, the customer has done you a big favor: he or she is helping you to stay in business. A simple thank you is the least your customers deserve.

Keeping the Customers Satisfied: One at a Time

One final point: Throughout the transaction, Jane gave her **full** attention to her customer. She **acknowledged** the other customer who had come into the store, but she did not make the mistake of trying to wait on two people at once. Neither customer would have received very good service. Most people are willing to wait, so long as they know a salesperson has noticed them and will be getting back to them.

THE TELEPHONE: YOUR CONNECTION TO GOOD CUSTOMER RELATIONS

Not all of your customers will be coming to the store to do business. You and your sales staff will also be responding to phone inquiries. Remember that the telephone magnifies everything you say. You want to be all the more certain that the words you speak are pleasant, courteous, knowledgeable and helpful. Here are some useful pointers to learn and to pass on to your employees.

1. Answer the phone promptly and pleasantly. **Nothing** irritates and discourages a customer more than having to wait on the other end of the line. **No** job is so important that you can't pause for a moment to answer the phone and at least request the customer to hold. Don't lose a customer before you even say the first word.

2. Identify your department and yourself. Don't waste a customer's time. Make sure he knows which department or section of the store he has reached. Transfer the customer promptly if another department could better serve him.

3. Speak clearly. People tend to talk faster when they're in a hurry. Tune in on yourself periodically to make sure you are speaking clearly and understandably. Also, watch the **tone** of your voice. Remember, the phone amplifies your voice 10 times.

4. The 30 Second Rule. Never leave a customer on hold for more than 30 seconds. If you have other customers waiting or if you can't find what the phone customer wants, check back with him and inform him of the situation. Offer him the choice of either holding longer or of having you call him back. ("I'm sorry, Mr. Cooper. I'm having some trouble finding that particular model. May I take your number and call you back?") If you are really pressed for time, you might also want to ask another employee to take the call.

5. Listen! **Never** interrupt a customer and never assume that you know what he wants better than he does. You need complete information before you can provide good service, and you'll never get this information if you don't let the customer talk. Besides, interrupting another person is the worst kind of rudeness. When you interrupt, you are suggesting that your customer is stupid or unimportant.

6. Write things down. If you have to get back to a phone customer at a later time, **write down** what he wants. Don't trust your memory. As the day goes on, you might forget the customer's request or even the fact that you were supposed to get back to him. Remember, that customer is depending on you. If you don't come through, he won't do business with you.

7. Hang up last. **Never** hang up first! Your customer might not have said everything he wanted to say. Give him enough time to think of everything he needs to ask. Then he won't have to call back or call elsewhere.

Some retail businesses might have a higher volume of phone calls than others. For example, a small engine shop that sells snowblowers will inevitably receive a deluge of calls when the first snow falls. Also, brochures and flyers tend to draw a large number of inquiry calls. If you anticipate attracting a high number of phone customers, then by all means invest in a system that can handle a lot of incoming calls. Don't try to economize by settling for three lines when you need ten. The business you lose from discouraged customers will far outweigh any temporary savings you might get from a smaller phone system.

FIELD SELLING

As stated earlier, field selling differs from retail selling primarily in the manner in which customers are secured. Differences and similarities may be seen in the chart above.

If you plan to go into retailing, don't stop reading here. Many of the same principles apply, and we have expanded on some concepts for application to all selling situations.

How to Find Prospects

The purpose of prospecting is to develop an on-going list of qualified prospects for your product or service. Since you can't expect everyone you call on to buy, the success of your business may depend on how well you play the "numbers game". The more qualified prospects you find, the more you will sell. What are some methods for locating potential customers?

Cold Calls. Go out and knock on doors. This is one of the easiest ways to locate prospects, but often one of the least effective.

Recommendations. Ask family, friends and business contacts for the names of likely prospects.

Referred Leads. Ask satisfied customers to give you the names of people or companies who might be interested in buying your product. This is probably the most valuable prospect source. And, for that reason, it pays to offer an incentive for such leads. Cash or merchandise may be used, but keep it affordable.

Ad or Direct Mail Leads. Media or direct mail advertising can be used to seek inquiries about your products or services.

Newspaper and Trade Magazine Articles. Local newspapers and trade magazines carry many items of interest: birth records, engagements, social events, new jobs, new businesses, promotions, and feature stories on successful businesses and business personalities.

Telephone and City Directories. If your target market is a restricted group, your prospect list may be ready and waiting for you in the yellow pages.

Trade and Professional Associations. If there is an organization for your potential customers, get your hands on the membership roster.

Purchase a Prospect List. You may be able to buy or rent a previously prepared list of names from a list broker or other source.

Fairs, Shows and Conventions. Arrange for booth space at an appropriate event. Have everyone who visits your booth register for a drawing. This is an effective means for getting leads.

Do Your Homework

You have your list of potential customers. Before you contact them, you should find out as much about them as possible. You can start by collecting some basic information through a few discreet phone calls. If you are calling a fairly good sized company, you will need to find out: name and location; basic business; name of the decision maker; and the approximate size of the company.

Then, as you prepare to make your first contact, you should do some in-depth research. You might find out:

1. A more complete description of the company's business.
2. A description of the company's organizational structure.
3. Names and locations of other branches and divisions.
4. Size by dollar volume.
5. Procedures for seeing salespeople.
6. Who your competitors might be.
7. Other information pertinent to your product or service.

How do you find this information? Check the following sources:

1. Corporate reports available from the company or local library.

2. Trade magazines or other industry publications.

3. Direct calls into the company (preferably to a person other than the decision maker).

4. A visit to the company.

5. Conversations with other people who do business with the company.

6. Conversations with your current customers in the same industry.

Preparing in this way will help you tailor your presentation to meet the company's needs. It will also help you uncover what some obstacles might be to making the sale. And, generally, the prospect will be impressed that you took the time to research his company.

What if the prospect is a small business owner, head of household, or some other individual? Collect as much information as you can before making your first contact. Find out:

1. Facts about his present situation.

2. Facts concerning his interests.

3. Facts concerning his needs and goals. What is he dissatisfied with and what would he like to improve?

4. Credit information. Whether he can and will pay.

5. Other information pertinent to selling your product or service.

You can get this information by asking your lead source at the time you are given the prospect's name. You can talk to satisfied customers who know the prospect. Or you can get this information directly from the prospect at the time of the first contact.

Qualify the Prospect

A qualified prospect is one who has a need or use for your product or service. He has the interest and the ability to derive benefits from its use. And he can afford to buy what you are selling.

The information you gathered on the prospect can help you determine:

1. What product or service does he need?
2. How likely is he to buy?
3. What is he likely to buy?
4. What approach would be best to get an appointment?

The First Contact

The first contact with the prospect can be either by cold call, telephone or letter. It is usually best to set an appointment with a larger company instead of cold calling. It saves your time and is standard procedure for most larger companies.

The research you have done so far should help you get an appointment. You know whom to call and enough about the company to create an opening statement that will generate interest.

The first approach you can try is to call the decision maker directly to make an appointment. The second approach is to send a sales letter first and then follow up with a phone call. This method eliminates the initial resistance to your call because it tells the buyer beforehand who you are, what you do, and that you will be calling.

For smaller businesses and individuals, you can cold call to generate interest, collect additional information, and set an appointment for a presentation. Depending on your product or service and your buyer's interest, you can make your sales presentation at the time of the first contact.

Prepare for the Presentation

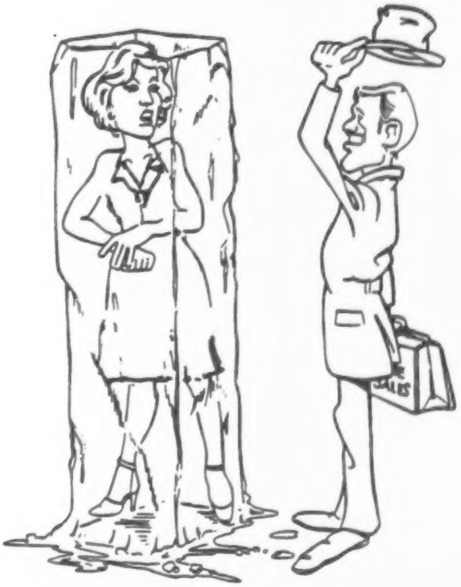
Once you have the appointment, it's time to plan an effective presentation based on what you know about the prospect so far. Here are some guidelines:

1. Develop an opening statement with a benefit that fits the prospect's needs.
2. Rehearse the flow of your presentation, making sure it is well paced and brief.
3. Prepare any brochures, catalogs or personalized information that you plan to leave with the prospect.
4. Prepare a list of questions you intend to ask the prospect, based on your research.
5. Prepare answers to the objections you think the prospect might present.
6. Prepare examples of how your service has helped others with the same or similar problems or needs.

GETTING OFF TO A GOOD START

Many salespersons find the first contact with the prospect to be the most difficult part of the presentation. They are afraid of being rejected before they have a chance to tell their story. This fear can be overcome by developing your opening skills.

The Warm-Up



The warm-up is an ice breaker. It is time you set aside to break down the barriers that might get in the way of communicating with the prospect. Here are some methods for prospect warm-up:

1. **Discuss his interests.** This is a logical starting point in warming up the prospect. Examples: "I noticed you're adding on to the building." "You must have quite a green thumb. These plants are beautiful."

2. **Discuss achievements.** All of us like to be complimented. A deserved compliment is likely to get the prospect's quick attention. Examples: "I read in the paper that your daughter just graduated from law school. You must be very proud of her." "I heard you were just promoted to senior vice-president. Congratulations, Mr. Jones."

3. Refer to a mutual acquaintance. Someone you both know can often break down communication barriers by providing a mutual point of interest.

You can improve the warm-up several ways:

1. **Make a good first impression.** Be polite and courteous. Speak clearly and business-like. Dress appropriately for the situation and use appropriate language.

2. **Ask questions that show you are interested in the prospect and his needs.** An important objective of the warm-up is to get the prospect talking. Asking a question at the end of a warm-up statement shifts the conversation over to him and encourages him to talk.

3. **Be sincere.** The prospect will quickly spot any phoniness on your part. Be sure your compliments and concerns for his problems are sincere.

4. **Show the prospect you are knowledgeable about his business.** If your customers are farmers, you'd better know something about farming. If your customers are dentists, you'd better know something about dentistry. You will never be able to convince the prospect that your product or service will solve his business problems if you don't understand his business.

The Benefit Offer

The prospect will get excited about what you have to say only if you can give him a personal reason or incentive for listening. The benefit offer is a statement or question that gives him an opportunity to solve a problem or satisfy a need. It gives him a reason, specifically oriented to his self-interest, for talking to you.

The types of benefits that might be used in your benefit offer are almost endless and depend on the nature of your product or service. Some examples are: increase income; reduce expenses, reduce the cost of production; save time; reduce labor costs; increase flexibility; reduce losses; reduce error; simplify procedures; improve quality; add value; and reduce the cost of maintenance.

How do you make the benefit offer?

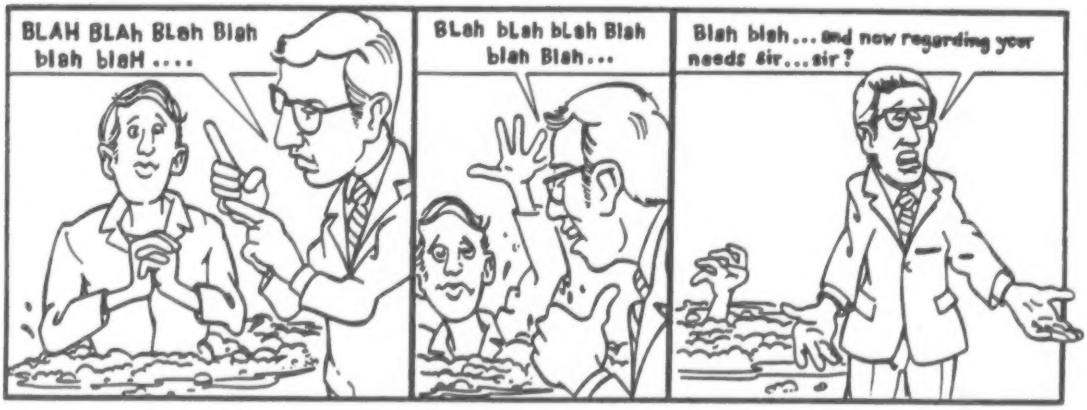
State it as a question when you want to encourage the prospect to talk and tell you more about his needs: "Would you be interested in having more time to spend on recreation?"

Use multiple benefits to improve your chances of suggesting a benefit the prospect will respond to positively. "Would you be interested in improving the quality of your product, and at the same time, reducing the cost of producing it?"

Make the benefit specific. It will be of more interest to the prospect because he can relate the benefit closely to his needs: "Would you be interested in reducing the cost of heating your home an average of $25 a month?"

Use the words "new" and "free" when appropriate. To the prospect, new means he can take advantage of something the competition doesn't have yet. Or it may mean a new approach to solve an old problem: "Would you be interested in a new way to finance your equipment at below market rates?" Free means he can get something without paying for it: "This free service guide shows how preventive maintenance can save you money."

Don't tell how the benefit can be provided. You are not ready to sell your product yet. Between getting the prospect's attention and explaining your product, you must first develop an understanding of his needs, wants, problems and goals.


BLAH BLAh BLah Blah blah blaH ....
BLah bLah bLah Blah blah Blah...
Blah blah... and now regarding your needs sir... sir?

ASSESSING THE PROSPECT'S NEEDS

There's no way you can assess the prospect's needs if you're doing all the talking. Remember, a sale isn't in sight until the prospect becomes involved in the selling process. You can involve him by asking the right questions at the right time and knowing when to stop and listen.

Need Identification

What is a need? No business, household or individual can provide, create or produce every product or service it takes to sustain itself. A need is the lack of any salable product or useful service. Only when the prospect is conscious of a need will he move to satisfy it.

Also, no business, household or individual has the resources or expertise to solve every problem. So a need is any product or service that solves a problem.

The process of assessing the prospect's needs serves two important purposes: it helps the buyer become more conscious of his needs, and it helps you become aware of his needs so you can show how your product can satisfy them.

To understand how your prospect's needs relate to the purchase of your product, think of all the possible reasons he should buy it:

Will it save him money?

Will it be more convenient to use?

Will it out-perform the product he is using now?

Will it cut down on his work?

Will it feed his ego?

Will it give him more control over his situation?

By understanding why customers buy your product or service, you are in a good position to identify the specific reasons important to each prospect.

You can start by asking him about his **present situation:** "Mr. Prospect, how are you presently handling the collection of your delinquent accounts?"

Perhaps, you can ask a question concerning **dissatisfaction** with his present situation. This will give you an understanding of his needs and wants: "Are you satisfied with the accounts receivable balance you are carrying on your books?"

In the same way, you can probe into possible **goals** the prospect has for his business or personal life that may be achieved through the use of your product or service: "What kind of accounts receivable balance would you like to have by the end of the year?"

The information you get will help you determine what features and benefits to present as you progress toward closing the sale.

Questioning Techniques

You can control the prospect's responses by how you ask your questions. Here are some of the questioning techniques you can use to successfully uncover buyer needs.

Ask Closed-Ended Questons only when you need a single, precise answer. The customer gives a very precise answer because there are only a few possible answers. The following are examples of closed-ended questions:

1. Do you guarantee your equipment?
2. How many special functions does your business give each year?
3. How many people attend?
4. What kind of food do you serve?

Ask Open-Ended Questions when you need detailed explanations. There isn't a single answer to an open-ended question. When you ask an open-ended question, you should be prepared to ask more questions which will direct the customer to give you more information. This is called probing. The following are some examples of open-ended questions:

1. On what occasion do you decide to entertain clients?
2. What kind of image do you try to project?
3. How do you feel we can help you make an impression on your client?

Probe to follow up and get more information or a more detailed answer to your question: "What kind of results are you getting?"

Blend Questions with Responses to avoid sounding like a district attorney:

(Observation) "I notice you don't have any quack grass."

(Question) "What type of weed killer are you using?"

(Answer) "Brand X."

(Response) "It seems to be working well for you."

Listening

About half of the time you spend with the buyer will involve listening to what he has to say. Why is listening so important?

1. So you don't misinterpret what the prospect is saying.
2. To encourage the prospect
3. So you know what to say next.
4. So you know how and when to close the sale.

We were born with

ONE mouth and
TWO ears. . .

So, we should speak only half as much as we listen.

Many of us are poor listeners. Often we assume what is being said is uninteresting so we tune out and think about what to say next. Or we may allow the appearance and speech delivery of the other person to interfere with good listening. Sometimes if we disagree with what is being said, we react emotionally by tuning out or preparing to do verbal battle. Often, we hear only what we want to hear. Physical or audible distractions may also turn our thoughts from the speaker.

Successful selling requires an ability to overcome these roadblocks to effective listening. Here's how:

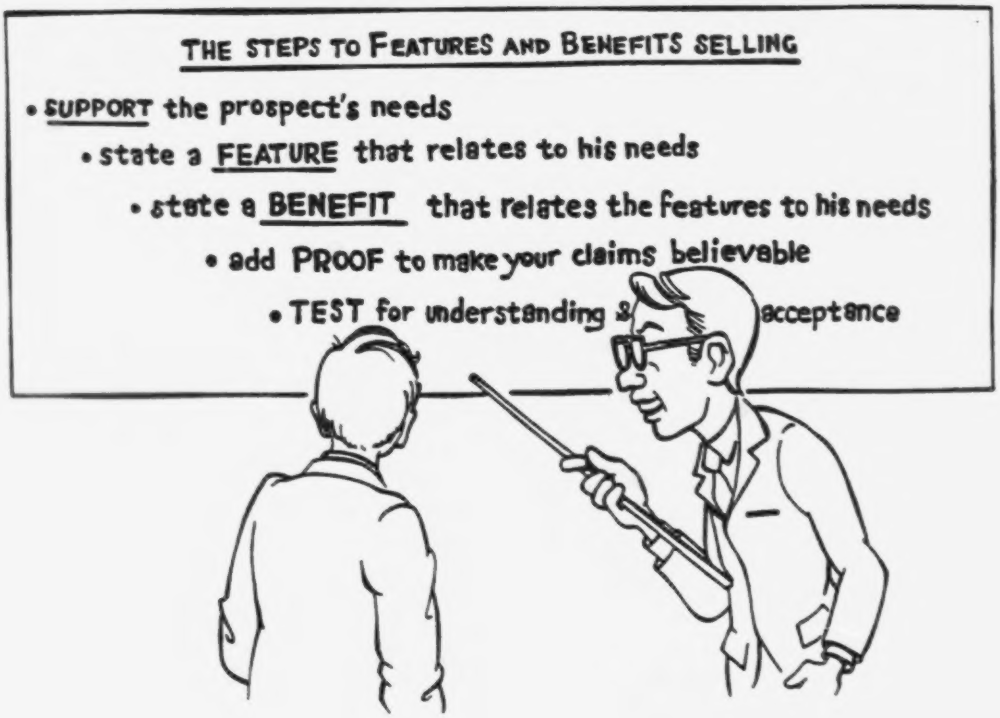
1. Look for central ideas. Try to identify the main points being made. Main ideas will usually be supported by a number of supporting facts. Don't try so hard to remember the supporting facts.
2. Use extra thought time. You can think much faster than the prospect can talk. Use that time to mentally summarize what is being said to read between the lines. Note the prospect's posture, tone of voice, facial expressions, gestures and other non-verbal cues.
3. Maintain emotional control by reserving judgement until the prospect has finished talking.
4. When possible, minimize high levels of background noise, poor acoustics, uncomfortable seating and temperature, and other barriers to good communication.

SHOW HOW YOUR PRODUCT OR SERVICE WILL MEET THE PROSPECT'S NEEDS

The main purpose of this part of your presentation is to provide facts, features and benefits about your product in a way that will help the prospect evaluate whether or not it will satisfy his needs.

Creating Benefit Statements

Benefit statements are used to incorporate features and benefits into the sales presentation. It is a method to show how the features and benefits of your product will satisfy the specific needs of your prospect.



THE STEPS TO FEATURES AND BENEFITS SELLING

- SUPPORT the prospect's needs
  - state a FEATURE that relates to his needs
    - state a BENEFIT that relates the features to his needs
      - add PROOF to make your claims believable
        - TEST for understanding & acceptance

Following are the steps to making a sales presentation by creating benefit statements:

1. **Support the needs you helped the prospect identify through question asking and active listening.** Restate his need and get agreement that it does exist: "I understand that you are dissatisfied with your accounts receivable balance and your average collection period."

2. **State a feature of your product or service that relates to the prospect's need:** "We give a 100% guarantee that we can collect any account on your books for an unusually low one-time fixed fee." Then, elaborate on the feature so the prospect can understand how it works and will accept that your claims are possible: "Here's how our service works..."

3. **Now, state a benefit that relates the feature to the prospect's need.** This will describe for the prospect what personally felt needs your product or service will resolve: "Therefore, you can turn those delinquent accounts into cash without spending the usual 33 to 50 percent."

4. If appropriate, **add proof.** This makes your claims more believable: "Many of our clients feel this is an important benefit of our service. In fact, Dr. Smith has found he is saving 30% of the cost of collecting delinquent accounts by using our service."

5. **Test for understanding and acceptance.** This step assures that the prospect understands how he will benefit from the facts you have given him and he agrees the benefits are important. If you forget this step, you may encounter resistance when you attempt to close the sale and you may not be able to determine why: "Can you see how our service would help you have better control over your accounts receivable?"

Presentation Techniques

Here are some suggestions to help make your presentation more interesting and appealing:

Use Visual Support. It helps the prospect remember key points in your presentation. Some useful visual support consists of sight-sellers, product pamphlets, models, charts, graphs, demonstration aids, or samples of the actual product.

Get the Prospect Involved. Address him by name frequently. Express benefits with the word "you". Let the buyer hold things or fill things out. If appropriate, let him try the product.

Be enthusiastic. Show that you are sincerely excited about your product and that you believe it to be the best solution he will find anywhere.

Use Words That Sell. Certain words and phrases will tend to impress the prospect: "different", "new", "latest", "just released", "money saver", "lasts longer", "more for your money", "time saver", and "modern styling". Make sure the words you use speak a positive message: "you" and "let's", not "I" and "we"; "our customers tell us", not "I believe"; "investment", not "cost"; and "opportunity", not "problem".

Use Repetition. Be sure to repeat what you want the prospect to remember.

WORK OUT THE PROBLEMS THAT KEEP THE CUSTOMER FROM BUYING

Handling Objections

What do you do when the prospect says: "Your price is too high"; "I hear people who buy from you have trouble getting service"; "I can get the same results by using Brand X and it's a lot cheaper"; "Your service can't handle all of my collection problems"; or "I don't care for the style"?

Even though the customer says "no" the first time around, he isn't necessarily rejecting your product or service. His objection is an invitation to be sold. No matter how good your sales presentation, the prospect will often resist the first time you ask him to buy. Successful salespersons know that objections are an aid to closing the sale and should be welcomed.

How can you overcome objections to your product or service?

A. **Anticipate the Objection.** You should know your product or service well enough to anticipate the general objections you will get from buyers. You can also put yourself in each prospect's shoes to determine what might cause him to resist. Then, build into your presentation the facts that will answer that potential objection.

B. **Find the Prospect's Real Objection.** Until you understand the true nature of his objection, you have little opportunity to resolve it.

1. Cushion the objection. This tells the prospect, "I understand you." Example: "I can appreciate your desire to keep down your costs."

2. Clarify the objection. Example: "How much are you now spending on collecting past due accounts?"

3. Probe to find out what the prospect is really asking you to do. Example: "If I could show you how other professionals are able to justify the costs of our services, **would you** be interested?"

4. Answer the objection. Example: "You'll be interested in knowing that one of the benefits of our service is to give you better control of your accounts receivable. Here's what it can mean to you in dollars..."

5. Provide a testimonial. Does the customer want to know who else is using your service and why they chose it?

6. Solve a problem. Does the customer have an underlying problem that your service doesn't appear to solve?

C. **Outweigh the Objection with Benefits.** This technique is valuable to show the prospect that the objection he raised should not be so important as the benefits he would enjoy. Example:

(Prospect) "I can buy Brand X for less money and it will do the same thing for me."

1. Cushion and clarify: "I can understand your concern. Just how much less would Brand X be?"

(Prospect) "$500."

2. Recognize the objection in smallest terms: "Let's spread that $500 savings over the life of our product, say 10 years. That's $50 per year. That $50 represents the additional investment you would be making with our product."

3. Build **plus** benefits: "Now, let's see what benefits you would be getting for that $50 per year investment..."

4. Compare: "Now, compare the added $50 per year investment with the added benefits you will enjoy year after year. Is there any question in your mind which is the better value?"

D. **Give the Prospect a Reason to Act Now.** This technique is valuable when the prospect is mentally sold, but wants to procrastinate to be absolutely sure. "I'd like more time to think about it. Why don't you come back next week?" First, cushion and clarify the objection. Then show his losses from delaying his decision and his gains for acting now.

Recognizing and Handling Emotional Resistance

Even though he has made the decision to buy your product, the prospect may resist taking action on that decision. This is especially true if it involves a sizable investment or a significant departure from his present way of doing things.

Emotional resistance is not a product of rational thought. It will not yield to logic. It does little good to provide the prospect who fears the consequences of his decision with more facts about your product.

How do you recognize emotional resistance? Some indications are:

1. When the prospect repeatedly puts off taking action, even though he agrees your product is the best answer to his problems.

2. When he keeps bringing up the same objections over and over again.

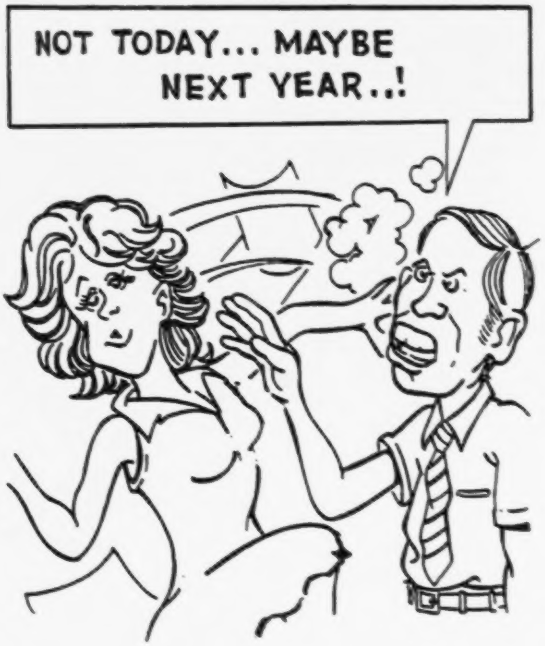
3. When he is worried about what people will think of his purchase.

4. When he is obviously ill at ease when you try to close the sale.

You can resolve emotional resistance by helping the prospect recognize his fears. If possible, introduce the prospect to a satisfied customer who had similar fears before buying your product. Encourage the prospect to express his feelings. As he talks about his feelings, he is more able to deal with them on a rational basis.

The Answer That's Worse Than a "No"

The worst thing that a customer can say when you make your closing statement is "Oh". In this case, the customer has lost interest in your presentation. The customer doesn't have an objection, a question, a reason to buy or a reason not to buy. The following are the "oh" responses that mean the customer has lost interest:


NOT TODAY... MAYBE NEXT YEAR..!

1. I'll let you know.
2. I don't think so; not today.
3. Perhaps next month.
4. I really don't see a reason to.

At this point, the only thing you can do is create the objection for the customer. You can do this in the following way:

1. Bring up a feature or a benefit that the customer previously disagreed with.

2. Restate it for the customer as an objection.

3. Handle the statement as you would an objection.

4. Ask the customer to buy again.

Another method is to try to grab the customer's attention by stating a new feature and benefit that you didn't bring up before.

However, sometimes you simply lost the customer and it may be wise to move onto the next presentation. You can always call the customer back when you have a new service or special rate of offer.

THE CLOSE

There is one thing you can count on: You won't get the sale unless you ask for it. The "close" is the culmination of your entire sales effort. Throughout the presentation, you have led the prospect up to the buying decision. Now at the end, you close the sale by directly asking him to buy.

Buying Signals

A buying signal is the prospect's way of telling you he has already made the decision to buy. It usually comes in the form of a question or statement about some minor decision that follows the major decision to buy: "When can you make delivery?" or "Which color would look best with my blue chair?" The buying signal tells you to start preparing for the close.

Trial Closes

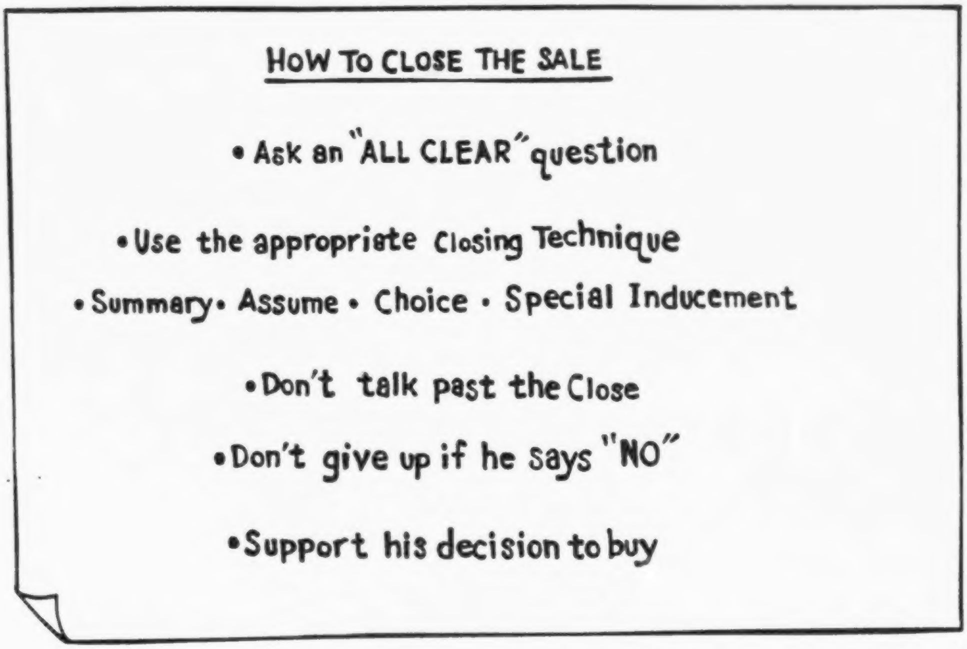
An important part of setting up the prospect for the close is to periodically test his interest in buying. The trial close is a question you ask to find out where the prospect is in his buying decision. It can be made anytime during the sales presentation: "We want to handle your delinquent accounts." "Would you want the building up by fall." "Would you need the automatic timing feature?"

How to Close

Many salespeople fail to get the order because: they don't ask; they don't know when to ask; they ask the wrong closing question; or they give up too easily when the answer is "no".

Here's how to ask for the order:

1. **Ask an All-Clear Question.** In response to a buying signal or at the appropriate closing time, ask something like, "Do you have any further questions?" If not, proceed to the close.



HOW TO CLOSE THE SALE

- Ask an "ALL CLEAR" question
- Use the appropriate Closing Technique
- Summary • Assume • Choice • Special Inducement
- Don't talk past the Close
- Don't give up if he says "NO"
- Support his decision to buy

2. **Use the Appropriate Closing Technique.** The **summary** close is an effective way to close sales in most situations:

   -Ask an all-clear question.
   -Review the prospect's needs.
   -Restate the features the customer liked.
   -Summarize the benefits most important to the customer.
   -Ask for the order.
   -Wait for the reply.

The **assume close** works best for the prospect who has indicated through buying signals an extreme desire to buy. To close the sale, you assume he has agreed to buy: "In order to get delivery by the end of the month, we'll need to fill these papers. First I need to know..."

The **choice close** is effective in all closing situations. Ask the prospect to order with a choice question that can't be answered "no": "Can we start your service this week or next week?"

The **special inducement close** gives the prospect a special reason to buy now: "By buying now, you can save 20%."

3. **Don't Talk Past the Close.** Once you have asked the prospect to buy, don't say anything until you get an answer.

4. **Don't Give Up If He Says "No".** It may mean he either has an objection you haven't uncovered yet or he is afraid to make the decision. Handle the objections and attempt to resolve emotional resistance. Then, repeat the appropriate close. Sometimes the special inducement close is effective to overcome a natural reluctance to act Continue this process until all his objections are exhausted or emotional resistance has been resolved.

5. **Support the Customer's Buying Decision.** When the customer agrees to buy, give him a vote of confidence. Assure him he has made a wise decison. Check all details to avoid unnecessary callbacks. Follow through promptly to make absolutely certain everything happens just the way you told the customer it would.

PERSONAL SELLING	
FIELD SELLING	RETAIL SELLING
•Prospecting	•Greeting the Customer
•Initial Contact	•The Sales Presentation
•Warm-up and Benefit offer	•Overcoming Objections
•The Sales Presentation	•Closing the Sale
•Overcoming Objections	•Plussing the Sale
•Closing the Sale	

If at First You Don't Succeed...

So you've gone through all the steps and he still says "no"? You haven't necessarily lost the sale forever. If you still feel the prospect is qualified, you should plan to go back and resell him. To make the call back pay off:

1. Assess your strengths and weaknesses in the first sales attempt. Did you "read" the prospect correctly? Did you stress the right features and benefits? Did you try to sell the right person? Did you try to close the sale?

2. Stay in contact with the prospect. Check back personally, by telephone or by letter, when you have new products, services or other information he might find interesting.

3. Try a different route. In large companies you can often get the account by going through a different department or division.

TELEPHONE SELLING

Unless your business is one where customers come to you and you have more business than you want, chances are a certain percentage of your selling could be done over the telephone.

What are the advantages of telephone selling? It can save you money. Personal selling in the field is a lot more expensive today than it was when gasoline sold for 40 cents a gallon and $10 rented a decent motel room.

Telephone selling can also save you time; and time, we all know, is money. Selling is a numbers game. The more presentations you make, the more you sell. Some companies claim if you double the number of presentations made every day, you can more than double your sales volume. The hours you spend clocking "windshield" time and waiting in reception areas to call on the wrong people could be used more productively on the telephone.

Not only can you talk to more prospects in the same amount of time, but you can screen out prospects who are not qualified buyers. You can create enough interest in your product or service to make a solid appointment for a personal sales presentation.

Regardless of what you sell, the telephone offers you the choice of expanding your market. Time and cost constraints may limit your personal selling efforts to a restricted geographical area. Telephone calling can take you beyond those limits.

Some accounts cannot be serviced profitably through personal sales visits. For these marginal accounts, servicing by telephone may be the best solution.

While the phone can be a tremendous boon to a salesperson, there are some disadvantages to watch for. You can't see your customer, for one thing. Visual clues can tell you a lot about your customer and your customer's business. Asking the right questions and listening are particularly important over the phone.

Pre-Call Planning

Whether you are using the phone only to qualify prospects and set up appointments, or you close all your sales over the phone, you must prepare for the call.

The first decision to be made, of course, is **who are you going to call?** If you are calling on new prospects, all of the rules for good prospecting apply. With your list of everyone to be contacted as a base, design a record keeping system to help keep track of: your "completions"--the people you actually speak to regarding your services; your qualified prospects--those interested and willing to hear from you; actual sales presentations made; and new accounts. Prepare index cards for each prospect to record qualifying information and the results of each contact.

Before you make the call, you must determine **why are you calling?** While the telephone can be used for a variety of purposes, you can only accomplish one selling objective per contact. Is the purpose of your call to sell your product? Get an appointment? Gather information to qualify the prospect? Find the decision maker? Follow-up? A good record keeping system can help you keep track of the specific purpose for each call.

What are you going to say? This, of course, will depend on your purpose for calling. The advantage of telephone selling over personal selling is that you can work from notes. Assuming you are speaking to the right person, you should have an opening prepared:

1. Tell who you are.
2. Give the name of your company.
3. Tell what you do.
4. Tell why you are calling.
5. Give a benefit to the prospect for listening.

When should you call? Depending on your product and your market, there are certain times of the day when prospects are likely to be available and more receptive to your call. If you sell your product or service to businesses, call during business hours. Peak phone times are thought to be from 9:00-11:00 a.m. Tuesday, Wednesday and Thursday. On the other hand, if your product or service is sold directly to the consumers, you may consider evening calls. You would definitely want to avoid meal times and early mornings. Experience and common sense will help you determine your prime calling time. Don't waste your prime selling time getting organized. Do your homework in advance.

Getting Through to the Right Person

Making your call is not as easy as dialing the number. Getting through to the right person is essential, whether you sell over the phone or in person. One study estimated that 65% of all sales calls are made on the wrong person! Your time is too valuable to waste on people who can't make the decision to buy what you sell.

Usually when prospecting, you can get the name of the decision maker through the switchboard or receptionist. But what about the "screener"? Usually, a third party stands in the way of you and your prospect. It may be a secretary, an assistant or a spouse. Their job is to screen calls and save the decision maker's time. Here are some techniques for getting through:

1. Be brief and direct.
2. Speak with authority. The screener's job is to screen out **unimportant** calls. Project your importance through your voice.

3. Don't allow yourself to be put on hold. Important people value their time.

4. Never tell the screener more than is asked:

   "I'd like to speak to Mr. Peterson, please."

   "May I tell him who is calling?"

   "Mary Smith. Is he in, please?"

   "Yes, he is. What company are you with?"

   "XYZ Company. Would you please tell Mr. Peterson I'm on the phone?"

   Let the screener ask the questions and ask to speak with the decision maker each time you answer. Persistence pays off.

5. Leave messages with authority and a subtle sense of urgency: "Mention to Mr. Peterson that if I can hear from him today, I'd appreciate it."

6. Establish rapport with the screener when you have to make several calls to get through. Find out his name and use it each time you call back.

The Telephone Presentation

The techniques used in the telephone presentation are basic to all selling. There are some distinct differences between personal and telephone selling:

1. You can control the presentation because the prospect has to concentrate harder on what you have to say.

2. You must compensate for the lack of visual cues.

3. You can work from notes. You can have the prospect's index card and other relevant background information at your fingertips.

The following format can be used in making the call:

1. Opening (basic introduction and benefit statement).

2. Establish rapport (assess needs and interests).

3. State the sales message (present features and benefits, overcome objections, close the sale).

4. Confirm the order or appointment.

5. Arrange for the next step.

6. Thank the customer.

The length of the presentation will depend on the purpose of the call. Most people get impatient after 15-20 minutes on the telephone. If the purpose of the call is to get an order, the majority of the time should be spent overcoming objections and closing the sale.

Follow-Up

Follow-up refers to the events that occur after the call is completed or the sale has been made. It can be summarized in one phrase--tending to details. Here are some suggestions for effective follow-up in telephone selling:

1. When you "sell" an appointment for a personal call, record it in your calendar and note if you should call first to confirm it.

2. When you close a sale, confirm the order by carefully repeating the item, quantity, price, delivery date and other details. Schedule a time and date to call back to make sure the order was delivered or service was rendered as promised. Make detailed notes of the transaction on the prospect's index card.

3. Call back periodically to find out how things are going.

Improving Your Call Success Rate

Suppose you find telephone selling isn't working for you. Before you give up, try to determine some possible reasons for your problems:

If no one is in when you call, you're probably calling at the wrong time. Change your selling times to see if you can get in touch with more prospects.

If they aren't interested in what you're selling, review your prospecting techniques.

If you're not getting enough appointments or closing enough sales, you probably aren't making enough calls.

If your prospects are rude on the phone, are you giving them a reason for listening?

If you are getting complaints about service, how's your record keeping system? Do you follow-up?

DIRECT MAIL

Direct mail is the use of mailed advertising to directly or indirectly develop sales. Selected mailing lists are employed to direct the selling message to the desired audience. Direct mail is used by more advertisers than any other medium and more dollars are spent on it than on any other form of advertising.

Direct mail can be used for anything from pure advertising to direct selling (mail order) to research and market surveys. In this chapter we will look at the following uses for direct mail:

1. To create more effective personal sales contact. Direct mail can be used to get actual inquiries about your product or service from interested prospects. These serve as leads for personal follow-up. It can also pave the way for your personal call by lessening resistance, arousing interest, and educating and informing the prospect.

2. To bring the prospect to you. This applies particularly to retail and service businesses. It generally involves a direct mail offer for reduced prices on products and services or a free product if another is purchased.

3. To take actual orders through the mail. In direct mail selling or mail order selling, every step in the process from the initial contact to the final sale is done exclusively by mail. The products are generally those not readily available in stores or through other sources. Rarely is a successful mail order business established through the sale of a single product or "one-shot" offer.

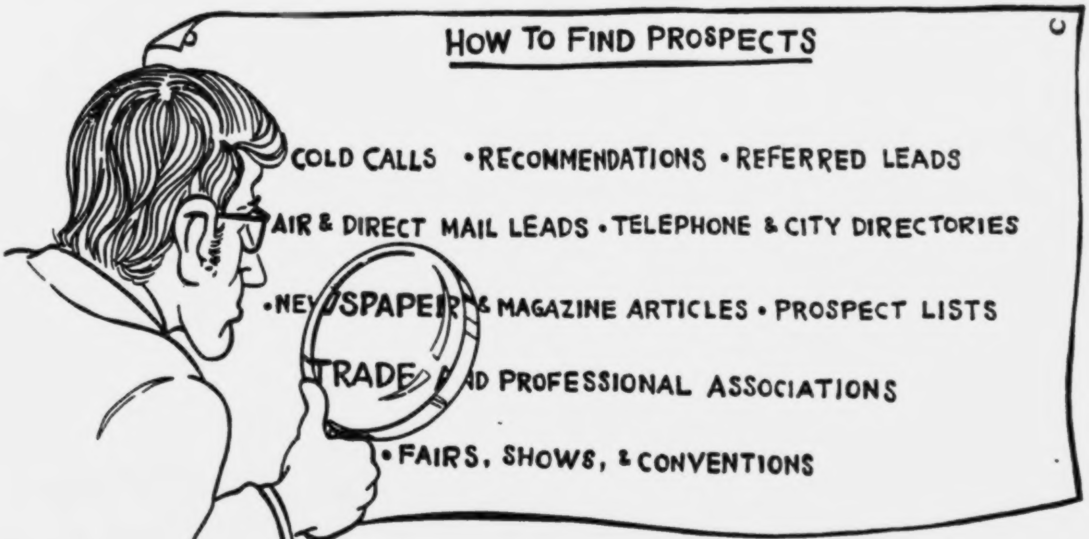
How Will Your Prospects Respond?

Direct mail is often misunderstood and assumed to be a waste of money for advertisers, a burden on the post office, and "junk mail" for the consumer. However, research has shown that: 85% of the people have no general dislike for direct mail; at least 75% of them open all direct mail received; for most people, the problem of "cluttered mail boxes" just doesn't exist.

The Basic Elements of Direct Mail

The List. The most important element in any direct mail program is the list of prospects to whom the mailings are sent.

There are a variety of ways to build your mailing list. You can start with your own sales records and then add prospects. Mailing lists covering every conceivable type of market and customer base are available through professional list compilers, brokers and other sources. To rent a list for one-time use usually costs between $25-35 per thousand names. The cost of purchasing a list for continued use may cost as much as $5.00 per name for a highly specialized list, although compilation costs are more likely to run about $50 per thousand names.


HOW TO FIND PROSPECTS
COLD CALLS • RECOMMENDATIONS • REFERRED LEADS
AIR & DIRECT MAIL LEADS • TELEPHONE & CITY DIRECTORIES
• NEWSPAPERS & MAGAZINE ARTICLES • PROSPECT LISTS
TRADE AND PROFESSIONAL ASSOCIATIONS
• FAIRS, SHOWS, & CONVENTIONS

A useful directory for locating list sources is the **Direct Mail List Rates and Data**, a comprehensive listing of mailing lists, arranged by subject in consumer, business and farm categories. It is published by the Standard Rate and Data Service and is available at local libraries.

Once you have a list, it is essential to keep it up-to-date. There is at least 25% turnover in the average list each year. Your sales records, sales call reports, new editions of directories, personnel change columns in newspapers and magazines, association rosters, and other sources will help keep your list alive. You can't afford to send direct mail to wrong addresses or to people who are no longer a part of your market.

The Offer. To be effective, you should seek to accomplish a specific objective through your direct mail effort. This is referred to as the "offer". It specifies the purpose of your mailing and the action you expect the recipients to take. It may be to send in an order, a request for literature, or a personal sales call.

Once you have your offer clearly in mind, you must develop copy that leads the reader to the offer and makes him want to take the action you request. The oldest and most frequently used outline for effective direct mail copy is AIDA:

-Get **Attention**

-Arouse **Interest**

-Stimulate **Desire**

-Ask for **Action**

Frequently, "the offer" is made in the form of a letter. Here are some tips for writing effective sales letters:

1. Clearly define the purpose of the letter.
2. Make it clear and concise. Use short, crisp sentences.
3. Clearly state the benefit of the product or service early in the letter.
4. Answer as many objections as possible
5. Clearly state a "next step" or the action you want the recipient to take.

The Package. The package is how the material is presented. Whether the mailer is opened and read or tossed in the wastebasket will often depend on the "package".

Careful consideration must be given to such things as the appearance of the sales letter, letterhead, envelopes and postage. The appearance of your sales letter is affected by the datelines, margins, the salutation, underlining, asterisks, color, type and signature. Your product and your market will determine the type of letterhead and paper to use. Color, art and design of the envelope are important in getting your mail opened and read. You must decide whether to use stamps, a postage meter, or printed postage permit, and whether to mail first or third class.

The order form is a very important part of the direct mail package. It can make or break the sale. A well-designed order form will have the following features:

1. The copy is clear and the offer is plainly stated.
2. There is plenty of room for the customer to give his name, address and other information.
3. Your name and address appear on the front or back if the form is not business reply.
4. The form looks important.

If you are making a straight charge offer, your order form could simply be a business reply card. A cash offer will have to include a reply envelope. In either case you need a business reply permit which is available at your post office. The permit number should be printed on your reply cards and/or envelopes.

You should include a circular in the package if:

1. Your product or service is not known.
2. The cost of the product is high.
3. When the product takes a lot of explaining or has to be seen to be appreciated.
4. When a desire for the product has to be created.

5. When you don't expect immediate action but you want the prospect to have information about your product or service before a telephone or personal contact.

If you decide your product or service can be sold better with a circular and a letter, here are some guidelines for a successful circular:

1. It should have an eye-catching headline with reader benefits.

2. It should show the product or service.

3. It should be easy to read with plenty of subheadings.

4. It should include all the information necessary for the prospect to decide to take action.

5. It should include an order form, if applicable, even if a separate order form is included in the package.

Fulfillment. Your objective in direct mail is to get the prospect to act. If he does, your objective is fulfilled. Now your job is to see that he gets what he asked for and gets it promptly.

THE LIST
THE OFFER
THE PACKAGE
FULFILLMENT
MAIL

If your objective was to seek inquiries about your product or service, you should:

1. Answer every request for product literature or a personal sales call.

2. Do it with a personal letter. Tell him when he can expect a call to set up an appointment.

3. Include all the information and literature he requested.

4. Do it **today**.

Handling orders received through the mail is even more important. You have just created a customer and he expects prompt and efficient service. If he is satisfied, he becomes an excellent prospect for future business.

Three Types of Sales Letters

1. **Letter of Introduction.** A letter of introduction is sent to the prospect before you make the first phone call. This letter tells the prospect who you are and what you do. You close this letter with a statement telling the prospect when you are going to call.

   Now, when you call the prospect, it is no longer a cold call. You open the conversation with a statement that refers to your letter. "Did you receive the letter I sent you?" or "As I mentioned in my letter..."

2. **Letter of Confirmation.** A letter of confirmation is sent to the prospect after you have set an appointment by phone. In this letter, you thank the customer for the appointment and state the benefits which will be the highlights of your presentation. If the prospect has asked you to send any specific information before the appointment, it can be included in this letter.

Sales letters can also be used to reinforce the prospect's buying decision:

3. **The Thank-You Letter.** Thank you letters separate the successful salesperson from the average salesperson.

Successful salespeople send thank-you letters. This letter thanks the customer for the order and restates your commitment to serving the customer.

The following are the rules for writing sales letters that sell:

- The purpose of the sales letter is clearly defined in the letter.
- There is a clear "next step" stated.
- They are precisely worded with short, crisp statements.
- The main benefits of the product/service are clearly stated.

Customer Service Letters

A lot of a salesperson's follow-up can be done in letter form. Some customers may feel that you are imposing or pushy if you are constantly calling or stopping by. But, everyone likes to get mail that isn't a bill. The following are the two types of customer service letters:

1. **The New Information Letter.** Every time a new service is introduced, you can use a new information letter. The letter explains the new service and the benefits of the service. If you plan to call or stop by to explain the service, you can state a time and date in the letter.

   Any new brochures or catalog sheets can be included with the letter. The new information letter helps you reach all your customers quickly.

2. **The Complaint Service Letter.** The complaint service letter helps you maintain your customer after he has had a problem. It is the personal touch that shows you were concerned about the problem and the problem is now solved. The complaint service letter is sent after the problem has been resolved and the customer has been informed by phone.

The following are the rules for writing customer service letters:

- They are written in a personal and informal manner.
- They are always sent with a benefit message.
- They are brief, no longer than one page.

Proposals

A proposal is used for selling large accounts. The proposal explains in detail the services and prices offered. The following is a brief outline of what should be included in a sales proposal:

1. The purpose of the proposal.
2. The services and prices offered.
3. The benefits of the services.
4. How the customer will be serviced.
5. A description of the next step.

Guidelines for Successful Mail Order

In mail order, it's the repeat sales that yield the profit. Here are some pointers for making your direct mail selling program a success:

1. Address correctly and to the right list. Reaching the right people at the right time is critical to successful direct mail.

2. Make sure the copy shows a benefit.

   a. Promise the reader a benefit in the headline or first paragraph.

   b. Immediately expand upon your most important benefit.

   c. Tell the reader specifically what he is going to get.

   d. Back up your claims with proof.

   e. Tell the reader what he'll lose if he doesn't act now.

   f. Rephrase your benefit in the closing offer.

   g. Ask for immediate action

3. Make the copy "fit" the reader.

4. Make it easy for the reader to take the action you want him to take.

5. Don't forget the customer. Tell your story over and over again through repeat mailings. You would never think of stopping at one sales call in personal selling if you didn't get results. The same holds true for direct mail.

6. Keep track of your results. Note the packaging and lists that "pull" the most action.

BASIC RULES OF BUSINESS WRITING

The problem most people have in writing a letter or proposal is that they don't know how to get their thoughts out of their head and down on paper. The following step-by-step method is used to solve this problem.

1. **Who is the Reader?**

Is the reader a new prospect, a new customer or an established customer?

2. **Why Are You Writing?**

Are you trying to sell a new customer, set an appointment, introduce new services, etc?

3. **How Are You Going to Say It?**

The information from steps one and two will help you decide what type of letter to write: prospecting letter, thank you letter, proposal, etc. In addition, you will know what the style and tone of the letter should be: formal or informal, handwritten or typewritten, long or short.

4. **What Do You Want to Say?**

Create an outline of what you want to say. For example, what do you want to say in the first paragraph, the second paragraph, etc. Now, write a first draft of the letter by filling in the outline with the right statements. At this point, don't worry about sentence structure or grammar; just get your thoughts down on paper.

5. **Write the Second Draft.**

Now, review your first draft. Do you like the style and tone of the letter. Do you like how the letter is organized? Have you stressed benefits throughout the letter? Start with a fresh piece of paper and write a second draft which corrects all the things you didn't like in the first draft.

Many professional writers will write third, fourth and fifth drafts before they get a letter they really like. However, each draft becomes easier because your thoughts were down on paper in the first draft.

6. **Edit Your Last Draft.**

Finally, correct your letter for any spelling or grammar mistakes that you may have made in the last draft. You can also make any changes in the format or layout of the page before it is finally typed. Any errors in your letter will distract the reader and dilute your selling message.

In this chapter, you learned that your business depends on the art of selling. You learned it takes skill, ability, personality, product knowledge and people knowledge to do it right. You learned the principles basic to all selling and the specific techniques for selling in person, by telephone or by direct mail. The rest is up to you. Your success will depend on your ability to close sales and create satisfied customers. It will depend on your hiring the right people to sell for you...people who enjoy selling and do it well. Remember: "Nothing happens till something is sold."

CHAPTER 15

Insuring your future

How to keep the sky from falling

A pet shop chimpanzee, usually friendly with strangers, suddenly bites a little girl on the cheek. Her doctor says she'll be scarred for life. The little girl's parents sue the pet shop for damages in the amount of $500,000.

A small TV repair shop is gutted by a fire caused by faulty wiring. The owner's entire inventory, as well as twelve TV's in for repair, are destroyed.

A family is visiting a photography studio for a portrait, when five-year-old Mark uses the men's room. He playfully turns on the water faucet, and leaves it on. Before the flowing water is discovered, it has seeped through an opening in the floor, damaging several very expensive paintings in the art studio directly below.

Without adequate insurance to cover such occurrences, these small business owners would be wiped out.

Accidents are always unpredictable, and they occur by the thousands every day. They inflict every type of injury, from a scratch to sudden death, on their victims. As careful as people try to be, the chance of some kind of injury or disaster remains.

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Let's face it, the cost of insurance itself is painful; but what small business can be without it? Even though you may be struggling to stretch your dollars, you should (or in most cases, **must**) make insurance a part of your operating budget.

Think how you would be affected by chance events like:

Fire
Earthquake
Windstorm
Flood
Theft
Vandalism
Automobile accidents
Anyone injured on your business premises
Employees injured on the job
Illness which prevents you or an employee from performing on the job for a long time
Death or injury to you or a key employee

Such occurrences are called "pure risks" because the victims are always unwilling. It is for this type of risk that insurance exists.

Insurance first came about by people pooling funds or goods on their own to share risk. A disaster is likely to happen to only a few people in any give year, but nobody knows which few. If a group of people pools funds and sets the money aside, everyone can be protected from fire or other disasters and illness with a modest individual investment.

A small business owner can become overwhelmed by all the insurance needs and options. You could use the help of a good insurance agent to develop a sound insurance package for your business. You'll also want to be armed with a knowledge of insurance principles and an understanding of the many different types of insurance available.

In this chapter you will learn:

1. Basic principles common to many types of insurance.

2. How to choose insurance agents and companies.

3. The basic types of insurance for small businesses, including:

    A. Property and liability insurance.

    B. Employee plans and workers' compensation.

    C. Special life and health insurance concerns for small business owners and partners.

    D. Special insurance concerns for one-person or at-home businesses.

4. How to reduce your chance of loss.

5. Insurance requirements are continually changing, along with changes in your business and in the insurance industry.

BASIC INSURANCE PRINCIPLES

Insurance companies play the odds.

Insurance company rates are based on hundreds of statistics. These statistics allow them to determine the odds of particular disasters common to your business. The odds are influenced by factors such as your location, the age of your building, and the nature of what you do. These factors go into the formula that computes your insurance rates. Your age, sex, and health history are factors which affect the insurance company's calculation of your odds for life and health insurance premiums.

Because an insurance company has many policyholders, it can calculate closely what it will pay out in claims each year based on the law of averages.

When insurance companies play the odds, they build in a "house advantage," just like a gambling casino. They charge enough in premiums to cover their expected claims and produce a profit.

Insurance is for large losses, not trivial ones.

Insurance will not pay for itself by paying for claims equalling what was paid in premiums. This will happen only for a few people who suffer large losses.

You don't want to buy insurance for every possible loss. If you break a $50 piece of equipment, you can handle that loss without insurance. You should think of insurance as protection against only those events which would cause your company serious financial hardship.

One way of reducing insurance costs is to buy policies with deductible claim portions. Higher deductibles reduce your premium. In turn, you pay for small losses - those below the stated deductible - yourself. Automobile insurance, for example, can usually be purchased with deductibles of $100, $250, or $500. Obviously, a policy with the $500 deductible will cost less than the other two.

In general, when you buy a policy with a higher deductible, the money you save in premiums can more than make up for the money you'd spend to take care of small losses yourself.

Buy insurance with high enough policy limits.

If you insure a building that costs $100,000 to rebuild, you should insure it for 80% of its replacement cost or its actual cash value.

Lawsuits against small businesses sometimes run into the millions of dollars. So give serious thought to the possibility of liability insurance for large claims against your business. It pays to have insurance with limits high enough to cover losses which you could reasonably expect to pay. Higher limits usually add a relatively small extra premium.

Don't over-insure or expect to profit from insurance.

People should not think they can profit from some disaster by buying insurance worth more than the true value of the property covered, or by buying several policies with overlapping coverage. Insurance companies and state governments have many rules to prevent the fraudulent use of insurance for personal gain.

Be open with your insurance agents and companies.

Only through honest and complete communication can insurance agents and companies meet your needs with appropriate policies. Some people try to save money by concealing facts. However, misleading answers to application questions can be grounds for cancellation of the policy or denial of claims. Be sure your insurance agent knows all the facts about your company. Otherwise, you may wind up with coverage that doesn't meet your needs.

Open, honest,
unadulterated,
factual, explicit,
lily-white,
literal truth.

Don't shop by price only.

Price is important when shopping for insurance, but it shouldn't be your only consideration. Different companies charge different rates for identical policies. However, sometimes you get only what you pay for. A cheaper policy may exclude important items from coverage. Read the fine print. The deductibles on a cheaper policy may be too high, or the policy limits may be too low. Some companies are known for providing superior service, and their premiums may be higher as a result. Good service from your insurance agent is very valuable. This will be discussed in the next section.

Make a safe business.

Even with insurance, a loss will cost you time and money. Also, human lives may be at stake. So when you are planning an insurance package, think also about ways to make your business safer. Measures such as high-quality locks, fire alarms and other fire-safety measures, careful driving, and so forth, give you peace of mind. They can also reduce your insurance premiums.

You'll never insure everything.

Insuring your business against every possible chance event that could produce a financial loss would be impossible. To come even close would be very expensive. You need to decide what risks are most important for your business. Develop an insurance plan which goes as far as possible given your finances.

Risks you choose not to insure, you "assume." For example, some people go without collision insurance on automobiles, especially older cars of low value. They have chosen to face the cost of possible damage to their cars personally.

Some large corporations go a step further through "self-insurance." They maintain large funds of their own to cover certain risks.

Summary

Insurance companies play the odds. They take in more in total premiums than they expect to pay out. When they don't, they raise the premiums. Think of insurance as protection against large losses that could cause serious hardship - not as protection for all trivial losses. Deductibles save you premium dollars, but you will then pay for small losses yourself. Buy insurance with policy limits high enough to cover potentially large losses. At the same time, don't carry excess insurance thinking you could make a profit. Be open with your agents and companies. Price is important but must be balanced by other concerns. Finally, look for ways to make your business safer.

CHOOSING INSURANCE AGENTS AND COMPANIES

A good agent (or two) is crucial.

Many people buy their individual insurance from a relative or friend. Or they are sold policies by friendly agents who are good at patting people on the back and making small talk about sports. Be careful when choosing insurance agents for your business. You need a true business insurance expert.

Your agent must help you make sense of all your insurance options and considerations. He or she also serves as your contact with the insurance company. Your agent will have to go to bat for you should a claim arise.

You may need several agents for various types of insurance. One agent may specialize in property and liability insurance. Another may specialize in employee benefit plans or life and health insurance.

A good agent will not just sell you insurance. He or she will help you study the important risks involved in your business.

What To Look For In Insurance Agents

In view of the fact that an insurance policy is so often obsolete before it is printed, the agent's role takes on a special significance. You'll know you've found a good one when he demonstrates his ability to tailor and interpret a proper policy for your business.

Choose an agent the same way you would choose any other business associate or supplier. Look for someone with a good reputation in your community. Ask other small business people you know to recommend agents.

ACE
INSURANCE

Interview several competing agents. This will help you find one who really knows the business. Ask lots of questions. Don't be afraid to plead ignorance or any matters like coverage or vocabulary. After all, you need all the raw information and understanding you can get.

Look for someone who seems willing to spend enough time to carefully evaluate your insurance needs. You'll want an agent with whom you can develop a long-standing relationship of trust. As your company grows and changes, you'll want your agent to help you determine your changing insurance needs.

The insurance industry awards some designations - they're like diplomas - to agents who have demonstrated their knowledge. A CPCU designation (Chartered Property and Casualty Underwriter) means that an agent has passed a series of difficult tests on property and casualty insurance. A CLU designation (Chartered Life Underwriter) shows life and health insurance expertise.

Some agents are independent and represent several insurance companies at once. Others represent only one company. A broker is also independent and can place your insurance with many companies. There are plusses and minuses to each kind. For your purposes, these differences are not as important as business insurance expertise.

Once you have chosen an agent, it is a good idea to ask him to function as though he were on your board of directors, interpreting your insurance needs.

Choosing Insurance Companies

Your choice of an insurance agent often comes before your choice of an insurance company. The agent can help you make that choice.

Look for a company with:

1. The specialized types of products you need.
2. A good reputation for service.
3. Financial stability.
4. Competitive prices.

There are more than 3,000 insurance companies in the United States. If a company has a name you've never heard, it doesn't mean it's not a good company for a particular insurance need. Many smaller companies have developed fine reputations for catering to specialized types of businesses or needs.

Your state government protects you against many unethical practices by insurance companies, but it still pays you to ask as many questions as you can about different companies. You can also check at the public library for publications by A.M. Best Company that rate the management and stability of insurance companies.

Summary

Choosing the right agent or agents is your first important insurance decision. Look for one with the expertise to match your insurance needs. Carefully interview several, and get some recommendations from other small business people. With the help of an agent you trust, choose insurance companies with solid reputations, the specialized products you need, and competitive prices.

TYPES OF INSURANCE

Insurance is divided into two main categories. Property and Liability (or property and casualty) is the first. The second is Life and Health. Property and Liability coverages are the most important types of insurance for business. Property coverage includes insurance on your buildings and other property. Liability protects you against claims of injury or protects you against claims of injury or property loss resulting from negligence on your part. Automobile insurance falls into this category. Life and Health coverage may be part of your employee benefit package. It may also be for the owners and partners themselves.

We will review these main types of property and liability insurance:

- Property and liability package policies
- Business interruption
- Marine and inland marine

- Product and professional liability
- Motor vehicle
- Other special types

In the "Your Employees" section of this chapter, we will cover group life and health and related employee benefits. We will also discuss workers' compensation, actually a form of liability coverage.

The "Personal Insurance for Business Owners and Partners" section will discuss business-related uses of life, health and long-term disability considerations. Credit life, used in connection with loans, will also be looked at.

PROPERTY AND LIABILITY INSURANCE

As an owner of a small business, your major need will most likely be property and liability insurance. There are many different types of property to be covered and many potential areas of liability. You don't have to buy a separate policy for each item and each risk, however. One package policy can cover many property and liability risks at once. You may need separate policies to cover risks left out of the primary package, however. Motor vehicle insurance, for example, comes separately.

Before we discuss types of policies, let's look at the range of risks involved.

Property Risks

As you work out a program with your agent, list all the property your business owns to help you understand your insurance needs.

Let's take a look at Harry, the owner of a small office supply business, as an example. His business owns a building worth an estimated $200,000. The business furniture and equipment are worth more

516

than $30,000. Inventory varies, but its value at one time can be more than $50,000. The business also owns an automobile ($8,000) and a delivery van ($10,000). Every item of business property that Harry owns is subject to a variety of risks. He has listed their value in terms of replacement cost and would be wise to insure them against loss.

After you've made an inventory of your business property, stop to consider again all the various types of disasters to which it is exposed. Fire comes to mind immediately. Similarly, there are dangers of explosion, windstorm, flood, earthquake and so forth.

Consider crime risks of theft or burglary, or the possibility of vandalism or riot. Which risks are most important for your business depend on their nature and location. For example, a business located near a river has a greater need for flood coverage.

Liability Risks

For what types of damage to others might you be held financially responsible? For what could you possibly be sued? Harry knows that a customer, or even a passer-by, could be injured on his business premises. A fire or explosion could originate at his building and damage the building next door. A defective product could cause an injury.

Many business owners have a hard time imagining a major lawsuit could actually be brought against them for almost any reason. But anyone who reads the newspapers knows we live in a "suit-happy" world. Here's a story, based on an actual occurrence, to illustrate why you should be concerned about liability risks:

> An electrician, a small businessman, was called by a large corporation to do some wiring at its headquarters. While completing his work, the electrician unknowingly damaged some other wiring. Several days later, the electrician's slip-up created a chain of events leading to a $250,000 fire.
>
> The corporation's insurance company came after the electrician. He had liability coverage, but with policy limits of only $50,000. The result: One ruined business, and it wasn't the major corporation or the insurance company.

Business Property and Liability Package Policies

A "package" property and liability policy covers many risks at once. Most people are familiar with standard homeowners policies. They cover your home and your personal property, as well as your personal liability needs. Similarly, business "multiple-lines" policies include both property and liability coverages and protect against many perils.

One warning about package plans: Don't assume they cover all your property and liability needs. Be sure you and your agent review your plan carefully to determine exactly what it does and does not cover.

For example, a common type of package policy is called an "all-risk" policy. Because of the multitude of risks it covers, the insurance company prefers to list those risks it **does not** cover. Examples of some exclusions would be ground seepage, earthquake, landslide, normal wear and tear, animal damage, etc.

When you find important property and liability items or risks not covered in your multiple-lines policy, add appropriate separate policies to your insurance package. Or, you may be able to add "endorsements" which will extend your package policy. This is like adding "options" when you buy a new car.

Your basic business liability needs can likewise be covered under such a package policy. Some businesses will purchase separate business and liability package policies. But this is not usually true for small busineses.

As mentioned earlier, policy limits are a very important part of your liability coverage. Because businesses are often prime targets for lawsuits, some agents recommend that small businesses have liabilty limits of $1,000,000 or more.

Standard liability coverage protects you against many types of judgements for bodily injury or property damage. It also covers expenses for immediate medical care required by third parties at the time of an accident. It covers legal expenses in lawsuits against you, and the settlement of expenses such as court bonds.

Property Insurance: Replacement Cost or Actual Value?

In your property coverage, you can buy either "replacement cost" or "actual value" insurance.

- Replacement cost insurance is more expensive. If you have a loss, you can receive a claim payment to cover the cost of **new** buildings and goods to replace those lost.

- Actual value insurance will pay claims based on the estimated **depreciation** value of the property and goods damaged or destroyed.

How do you decide? If you think you can afford to make up the difference yourself between depreciated value and replacement cost should you suffer a loss, buy actual value insurance. If that difference would cause your business a serious financial hardship, buy replacement cost insurance.

Business Interruption Insurance

In addition to being costly in and of themselves, many disasters can create a business-interruption loss. If a fire hits Harry's business, it might take weeks or months to reopen in the same location or some other location. Meanwhile, Harry could lose thousands of dollars in revenue.

Business interruption insurance makes up for such lost revenue. It comes either as an endorsement to a multiple-line package property and liability policy, or as a separate policy.

Jeff's Artiste Supplies Co.

Perhaps its time we looked into a business interruption policy...

Marine and Inland Marine Insurance

Among the many specialized types of insurance are marine and inland marine. Marine insurance covers ships and their cargoes. "Inland marine" insurance may seem to be a contradiction in terms. It covers many types of goods in transit on trucks, trains, and so forth.

Inland marine has also become a sort of "catch-all" for many different types of coverage difficult to get under other policies. Some examples might include salespersons' samples, or data processing equipment used by a worker at home.

Products and Completed Operations

A **product liability** case arises when someone claims that one of your company's products has caused an injury or property loss due to a product defect or design flaw. Such lawsuits have grown both in number and dollar amounts in recent years. You can purchase product liability insurance as protection.

Completed Operations insurance applies to any legal liability on your part arising out of work completed by or for you.

Comprehensive General Liability insurance includes both of the above types, and premiums are based on an annual audit of your sales and receipts.

Professional Liability

Medical malpractice is the best-known form of **professional liability** insurance. This insurance protects people whose business involves services or consulting. People in such fields as law, engineering, accounting, and even insurance sales, are finding a need for professional liability insurance.

Motor Vehicle Insurance

Motor vehicle insurance is separate from other property and liability policies. Commercial motor vehicle coverage is not much different from the automobile insurance most of us carry on our personal cars.

Most policies include property coverage for your vehicle itself, as well as liability coverage for damage caused by the driver of your car to other vehicles and persons. Policies also cover the costs of injuries to the driver and passengers of your vehicle. There are several standard commercial policies available. Some vary in terms of who may drive your vehicle and be covered.

Most states require that you carry at least liability and personal injury coverage on any car you own. This protects all motorists from the danger of uninsured drivers. Otherwise, you must usually show that you have assets up to certain limits on which to draw if you have an accident.

If your company has many vehicles, you can buy "fleet insurance" to cover them all on one policy. You'll need a special type of policy if your business involves vehicles used for transporting people for a fee. If you use your personal vehicle for business, your premiums will be slightly higher than for other personal vehicles because of increased use.

Deductibles are useful in reducing your motor vehicle insurance premium. High policy limits often cost only a small added premium.

Other Special Types of Property and Liability Insurance

Many special types of property and liability insurance have been developed for special risks and unusual categories of property. These often come as separate policies.

One example is **credit insurance**, which can protect a business from unusually high losses on accounts receivable. **Title insurance** covers losses which may occur if a title to real estate proves to be contestable. **Aviation insurance** has been developed especially for airplanes. There are many other special categories, from **cast insurance** for theatrical or film producers, to **crop insurance** for those involved in agriculture. If your business is of a special or unusual nature, or if you have special types of property, your agent can tell you about special coverages available.

Bonds are closely related to insurance. You buy a bond as insurance for a customer or other third party to guarantee that you will perform some specific action. For example, a construction contractor can buy a bond to help ease the mind of a client. If the contractor fails to perform as agreed, the client can get a settlement.

Summary

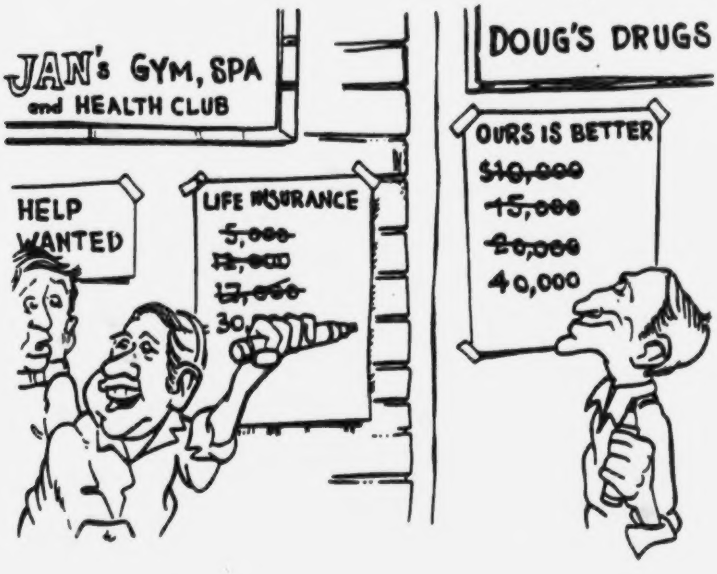
Every business is different and will need its own combination of property and liability policies and coverages. You should begin with a careful analysis of your property and your possible property and liability risks.

A package property and liability package can serve most small businesses well. But be sure you know what the package leaves out. You may need special endorsements to a package, or some separate policies, to get all the property and liability insurance you need. Coverage for your vehicles comes in separate policies. It is a must, for at least liability and personal injury protection. Other special property and liability coverages include business interruption, product or professional liability, marine or inland marine insurance, and other less common types.

We haven't yet discussed liability involving employees injured on the job. Workers' comensation insurance will be covered in the next section of this chapter, "Your Employees."

YOUR EMPLOYEES

Employee benefits, such as group life and health coverage, are commonly offered as additional compensation in lieu of salaries or wages. Small businesses offer benefits such as these to attract and hold good employees.



Group Life and Health Insurance

Employers sponsor and help administer group life and health plans. The employer usually pays part or all of the costs for each employee.

Group insurance is usually cheaper, per person involved, than comparable individual insurance because an insurance company can administer group insurance more efficiently than individual insurance.

In most group life and health coverage, a person's health condition does not affect his or her rates or eligibility. However, if your business has fewer than 10 employees, you probably cannot buy that kind of group policy. You will most likely be able to provide only the type of group insurance that uses a health questionnaire for each employee. Employees with health problems may be ineligible for the plan, or they may be charged a higher rate.

Group health insurance includes three main types of coverage:

1. **Basic medical and hospitalization** takes care of most day-to-day expenses of illnesses.
2. **Major medical** covers more severe health problems.
3. **Disability income** provides a regular income for employees who suffer disabilities making them unable to work for long periods of time.

Most employers provide a package of the first two. The major medical portion of the coverage is designed to "kick-in" after the basic coverage has been exhausted for a sick or injured employee.

Deductibles are common in group health basic coverage. The insurance cost will be less with deductibles, and employees will pay for small medical expenses themselves. "Co-insurance" in group health is similar to a deductible. A co-insurance provision might state that each employee will pay 20% of his or her medical expenses up to $2,000 in a given year. If such a co-insurance provision were obtained with a $250 annual deductible, here's how the coverage would work:

Employee's 1-Year Medical Expenses	Group Health Pays	Employee Pays
$ 250	$ 0	$250
$ 500	$ 200	$300
$1,000	$ 600	$400
$2,000	$1,400	$600
$3,000	$2,400	$600

An alternative to a group health insurance plan is a **Health Maintenance Organization**, or HMO. In many areas, HMO's have only recently become an option for small companies. An HMO is a large medical organization, usually including one or more medical clinics affiliated with one or more hospitals.

When you join an HMO, you pre-pay a flat amount, and the HMO will take care of all your medical needs while you are enrolled. Because HMO's don't have deductibles, they are usually more expensive than group health plans. However, those enrolled pay no medical expenses out of their own pockets.

Large employers can often offer employees a choice of an HMO or a basic health/major medical plan. Small employers can usually offer only one of the two options. With small employers, most insurers and HMO's require that all eligible employees must participate in the plan for the company to be eligible.

Employees' spouses and dependent children can be included in the group health plan or HMO at an additional cost.

As an employer, you can pay all of the group insurance costs or a percentage. Small employers usually must pay the entire cost for employees - although, not necessarily the added costs for spouses or dependents.

Many employers neglect long-term **disability insurance**. It can be a valuable employee benefit. Let's go back to Harry. He hadn't even thought about disability insurance, trying to save money by providing only a minimal group health plan for employees.

Jim, one of Harry's employees, suffers a stroke, is hospitalized for months, and may not be able to work for more than a year. Jim uses up all his group health benefits. He has a family to support, more medical bills, and no money coming in. So, naturally, he expects more help from his employer. Harry feels bad, but he can't do any more for Jim. He can't pay Jim's salary while he can't work.

Harry wishes we would have provided a group long-term disability benefit for his employees that would now give Jim a regular income to help him and his family through the disability.

Some employers have a policy of continuing a disabled employee's salary out of business revenues, which can be expensive. If you plan to offer no disability benefits at all, make your policy clear to employees so they won't expect to be covered.

Group life insurance follows many of the same rules for small employers. It's a form of annually renewable term insurance, which means that each employee re-enrolls once a year at a rate based on his or her age.

If you decide to offer group life insurance for your employees, one decision will be how much life insurance to provide for each employee. Coverage of $10,000 per employee is a common starting point. Some companies offer different levels for each employee, frequently equal to each individual's annual salary.

The insurer usually cannot cancel insurance for one person in your group once the insurance is issued. This prevents the insurance company from trying to cancel coverage for people who develop health problems. The insurer can, with due notice, cancel the policy for an entire group, however.

An employee who leaves your firm will often be able to continue group life or health coverage in some form at his or her own expense upon leaving.

Group dental insurance has become a common employee benefit. Insurance companies have experimented with other types of group coverages, such as group automobile insurance, but such plans are not common.

Never mind the pay Miss! How's your Group Insurance Program?

You may wish to purchase **individual life or health insurance** for some employees as an added benefit. A life insurance policy as a benefit for an employee, for example, can be a form of tax-deferred compensation.

"Key Man" insurance is a life insurance policy taken out by the company on a key employee. The company itself is named as beneficiary as protection against the severe financial hardship it would suffer.

Workers' Compensation

In a way, workers' compensation is an employee benefit. It protects employees from medical costs and lost income caused by on-the-job injuries. It also protects you, the employer. By providing workers' compensation, you are protected from the threat of lawsuits by employees over on-the-job injuries. So, workers' compensation is considered liability insurance.

Workers' compensation is an expensive worry for many businesses. But if you have employees, you don't want to go without it. This is true for almost all types of businesses. Most states have strict laws requiring workers' compensation.

Workers' compensation laws vary from state to state. Your property and liability agent can help you understand the laws in your state. You can also consult state government agencies or an attorney if you are not familiar with your state's requirements.

While you are looking into workers' compensation, find out if you should - or must - include yourself in the coverage.

Summary

Your employees are very important to your business. Employers provide benefits such as group life and health insurance to help keep and attract good employees. Your employees' health and happiness should be a major concern, and (if you're really gung-ho) this concern should extend even to their diet, exercise and accident prevention practices. Even if your company has only two employees, you can provide some type of insurance benefits. Long-term disability coverage should be considered along with group health. Workers' compensation protects both your company and your employees. You can also benefit from participation in most employee insurance plans.

PERSONAL INSURANCE FOR BUSINESS OWNERS OR PARTNERS

You've developed a good insurance program to cover your business property and liability needs. Your employees have a good benefit plan and workers' compensation. Have you looked after yourself and your family? As a small business owner or partner, your individual insurance needs may be larger than other people's.

Life Insurance

A small business owner or partner may want a lot of life insurance. Here's why. Most small businesses, even very successful ones, are usually in debt. They borrowed heavily over the years, especially to get started. The business owner may have used his own personal assets as collateral for loans for the business.

This debt is not a big problem as long as the business keeps generating revenue to make the payments and the owner remains alive. An owner often wants to be sure that his family can retire business debts in the event of his death. Life insurance can be a way to take care of this problem. It can also help the family keep the business in operation, or at least pay estate costs.

With partnerships or small corporations, there's another twist. Partners often buy life insurance on each other. If one dies, the other will be able to buy out the deceased partner's share in the business. This use of life insurance works to the benefit of both the surviving partner and the deceased partner's family. In a small corporation, the corporation itself may buy life insurance on each owner involved.

Types of Individual Life Insurance

There are two main kinds of life insurance: **term** and **whole life**. Term insurance is cheaper. It provides coverage for a specified number of years. Term insurance pays only a death benefit, thus, there is no cash value to draw upon. Some term insurance is "guaranteed renewable," which means the policyholder can renew the policy every time it expires regardless of changing health. The rate will be higher every time the policyholder renews, however, because of increasing age.

Whole life insurance guarantees you a flat insurance premium, regardless of your changing age and health, for as long as you continue paying premiums. The rate is based on your age and health when you first buy the policy. Whole life also features an accumulating cash value which can be drawn out while you are still alive. You can use the policy as collateral on loans.

Which type of life insurance is better? Whole life policies have been attacked by some financial experts who say that other investments will provide a better interest rate. Term is cheaper, but it has no investment value and no guarantee of life-long, flat-rate coverage. Insurance companies have recently developed new, more competitive types of whole life insurance.

Credit Life Insurance

Credit life is often required by lenders before approving loans, naming themselves as the beneficiaries. If the borrower dies, the insurance pays off the outstanding loan balance. Lenders may either require you to buy and pay for the coverage or it may buy and pay for the insurance itself.

If you buy the credit life, it is individual insurance. If the lender buys it, it is a form of group insurance. Consider the cost of credit life as a factor in choosing among various loans.

Your Health and Disability Needs

If your company has a group life and health policy, as described in the last section of the chapter, you'll almost always want to take advantage of it for yourself. This is because group insurance is cheaper than individual insurance. Remember that disability insurance can also be important.

If you have no group health or disability benefits, see the following section of this chapter which describes some options.

SPECIAL CONCERNS FOR ONE-PERSON OR HOME BUSINESSES

If you run a business out of your home, and/or if you run a one-person business, most of the principles discussed in this chapter still apply.

If you assume that your homeowners or renters policy takes care of your professional equipment stored at your home and also takes care of your business liability needs, you are probably wrong! Most homeowners and renters policies specifically exclude coverage for property used in a business pursuit, and for liability arising out of business pursuits. If your business is new, and your business property is of low value, and liability problems are unlikely, you may decide to "assume" the risks and go without coverage. Or you could add coverage of incidental business items by endorsement to your homeowners policy.

The basic rule is this: If your home-based business involves products, inventory or walk-in customers, you need a business insurance policy. Then your personal property would be insured separately under a "renters policy" as though you were renting space from your business.

You may have to call around (use the yellow pages) to find an agent who knows how to take care of your unusual insurance needs. Many business insurance agents have neither the expertise nor the time to work with you. (Agents earn their livings through commissions on premiums.) For many business-oriented agents, your premiums would be so small they wouldn't take the time to help you.

ALL THIS FOR A LOUSY
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However, since "cottage industries" are a trend right now, some insurance companies are developing special insurance policies for at-home businesses. Such packages could be an easy solution to your property and liability needs.

Unless you are also working somewhere else, you probably have no employer-sponsored group plans to take care of your life and health insurance needs. You may have to shop around for individual policies. Individual health insurance can be expensive. You may want to find a policy with high deductibles.

You have a few other options to explore, through which you might be able to get cheaper group life and health coverage. If your spouse works, you may be insurable under his or her employer's plan. You may also be able to take advantage of group insurance through associations or professional organizations to which you belong.

WHEN YOU HAVE A CLAIM

When a disaster strikes, you suddenly realize why you have insurance in the first place. Your first step is to tell your insurance agent. If you chose your agent carefully, he or she will bend over backwards to help you through the claim procedures. Your insurance materials may also include addresses and phone numbers for appropriate insurance company claim offices. While a phone call may be sufficient, it's a good idea to also notify the company of the loss in writing. Claim procedures vary for different companies and policies. In addition to help from your agent, you can find out about claim procedures by reading your policy and related materials.

Here are some additional guidelines for various types of claim situations:

1 Plan for claims before they happen. For property insurance, keep complete and accurate records of your property in a safe place. For life and health insurance, let your loved ones know what policies you have and where to find them.

2. In cases of theft or other crimes, notify the police immediately in addition to your insurance company.

3. With fires, window breakage, or similar property losses, take steps to protect your property from further damage.

4. If an accident occurs which may involve liability, notify your insurer even before the injured party files any type of claim or lawsuit.

5. If any liability situation arises - a customer is injured at your business, for example - do not admit your fault or liability. This admission could later be used against you in a costly lawsuit. You may also be violating a requirement of your insurance policy. Don't offer the injured person a financial settlement before you have contacted your insurance company. This can be taken as an admission of blame. Be courteous and make sure the injured person gets the immediate medical help needed. Let your insurance company know about everything that happens in connection with the event, and, generally, let them handle the situation.

* * *

CONCLUSION AND REVIEW

Congratulations! You have completed the chapter on insurance. Insurance is a very complicated subject; one which people can study for a lifetime - and still not know completely. But armed with a knowledge of insurance basics, you will be far better able to make sound decisions about your business insurance needs. Here is a review of some of the main points covered in this chapter:

1. Risk is a fact of life for the small business person. "Speculative" risks are those you take willingly for a chance of gain. Insurance involves "pure" risks, potential accidents and disasters which are balanced by no chance of gain.

2. You can't cover all pure risks through insurance. You want to cover risks too large to bear without coverage.

3. Insurance is based on calculations of "the odds."

4. You can rarely, if ever, arrange insurance so you can profit from a loss.

5. People should be honest and open with insurance companies and agents.

6. Policy limits should be high enough to cover potentially large losses.

7. Your choice of insurance agents may be your most important insurance decision. A good agent will be of great value to you.

8. Price is important in insurance, but other considerations, such as making sure you get the policy provisions you need and finding an insurance company with a reputation for good service, are equally important.

9. Property and liability (or property and casualty) is one broad category of insurance. Life and health is the other.

10. You should make a realistic assessment of the broad range of risks faced by your business.

11. You can often cover many property and liability insurance needs through a package policy. But you'll probably need to add endorsements or separate policies for special coverage.

12. Motor vehicle insurance comes separately.

13. Property risks may also involve business-interruption risks. Consider business-interruption insurance.

14. There are many possibilities of lawsuits which could be brought against you. Product liability and professional liability may require special insurance treatment.

15. Some type of group life and health insurance can be provided as an employee benefit even in very small companies.

16. Disability income insurance is an important, but often neglected, employee benefit.

17. Workers' compensation insurance protects both a business and its employees. It is required for employees in most states.

18. Small business owners and partners may have special needs for life insurance.

19. Term and whole life are the two basic types of life insurance.

20. A homeowner's or renter's policy does not usually cover property used for business in your home, or liability claims which may result from your business pursuits. Separate policies or endorsements may be needed.

21. Notify your insurance agent and/or company immediately following any event which may involve your insurance.

CHAPTER 16

Take inventory....

Starting with you

Starting up a new business -- or nursing a struggling business -- can be an all-consuming passion. Your project takes more energy, time and emotion than you had planned. You grunt, groan and strive because there's a goal out there you **must** reach.

It's always difficult to define that goal, but we all spell it the same way: S-U-C-C-E-S-S.

A strange thing happens when we reach our goal. Someone changes the definition! So we focus a bit tighter, bear down harder and shove other things aside once again . . . because there's a goal out there we **must** reach.

In the process of building that thriving business or career we dream about, we may look "successful" by all the obvious standards. Yet on the inside we may be headed for emotional, social, intellectual or physical bankruptcy. Statistics show that:

About 25 million American people have high blood pressure.

One million persons have heart attacks each year.

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About eight million people have stomach ulcers.

An estimated 12 million Americans are chemically dependent.

At least 230 million prescriptions are filled each year for tranquilizers.

About half of all marriages end in divorce.

Not all the people who make up these statistics are victims of success. But many are people who, in chasing the pot of gold at the end of the rainbow, get lost in the process. Somewhere along the way, they forget how to live, how to think, and how to feel. They forget to focus on themselves, their needs, their values, their priorities, and what makes them happy. They end up asking themselves, "What now? What do I live for?"

During the process of daily living, we are confronted with a continually changing environment and pressures that demand all kinds of decisions. How do we cope?

There are two paths through life one can take. The first is narrow and restrictive. The person choosing this path cannot see beyond the narrow road before him, maintaining a safe and neutral position to avoid problems and escape reality. He often blames others for his failures, focusing on his plight rather than on how to get out of it. He spends his life trying to satisfy everyone else's expectations but his own, doing the "right things" for the wrong reasons. He is not emotionally or intellectually tuned in. He misses out on life's simplest pleasures and opportunities without even realizing it.

The alternate path is full of turns, each leading to new and different opportunities. The person following this path has control of his life, taking active steps to make the most of his experiences. He knows his limitations and makes the most of his assets. He places a high priority on his happiness, his health, and his personal relationships. He learns from his past experiences. He looks forward to tomorrow with excitement and enthusiasm but never loses sight of today. Of course, he has his down moments, too. But he bounces back because he knows what life has to offer, and he has faith in himself.

The path **you** follow will depend on many factors:

- How well you know and value yourself, know what you want, know what makes you happy so you can more fully utilize your human potential.

- Your ability to plan for tomorrow while making the most of today.

- How you approach the experiences of daily life.

- How you confront challenges and overcome problems.

- Your ability to control your actions and your Environment.

- Whether you respect and trust the people around you.

- Whether you can come to terms with your thoughts and feelings and share them with those you care about.

- Your ability to recognize and deal with the symptoms of stress in your daily life.

- Your ability to use failure and misfortune as stepping stones to success.

In this chapter, you will learn how to take charge of your life. You will get to know yourself better through a practical exercise where you identify your skills, personal strengths, and interests. You will set goals for your personal growth based on your needs, wants, and desires. You will learn to plan for success. And you will learn how to find value in the process of working your plan. You will learn practical ways to make the most of your relationships with people. You will learn about stress, its dangers, and how you can control it in your life. By the end, you will understand the true meaning of success.

TAKE CHARGE OF YOUR LIFE OR SOMEONE ELSE WILL

Two thousand years ago a great teacher named Hillel wrote, "If I am not for myself, then who can be for me?" Even then, people had to struggle to be themselves and run their own show.

You can't please everyone. So why do so many people spend their lives trying? It's simple. We all learned very early in life of the benefits that come from pleasing others. If we ate our vegetables, dressed warm, stayed healthy and out of trouble, our parents would be happy. If we worked hard, got good grades, and became class president or captain of the football team, we would make them proud. Our teachers would reward our accomplishments with recognition. If we wore the right clothes and said the right things, our classmates would reward us with friendship and popularity. We were conditioned to do the "right" things according to someone else's definition of "right".

Today, do we continue to let others run our lives? As adults, do we allow others to continue where our parents, teachers and friends left off? Taking charge begins with the process of growing up and realizing that, as adults, we don't have to please anyone but ourselves.

Some people continue living to win the approval of parents, family, friends, and co-workers. Everthing they say and do is motivated by the desire to please the people they come in contact with. These people "straddle the fence". They avoid committing themselves to an opinion, a decision, or certain course of action. And, they have a fatalistic approach to living: "Others know what's best for me. Let them decide." These are people who can't say "No," accepting responsibilities they don't really want, going places they don't want to go, and socializing with people they don't like.

What is behind this inability to take charge? The fear of not pleasing. The fear of losing the love and approval they got as children for doing the right things.

The basis of this fear is their failure to love and accept themselves. If they did, they wouldn't need the acceptance of others to feel like lovable and capable people. Only by accepting that **you** are **you**, a unique person unlike anybody else, that you become your own person with your very own life. Only then can you assume control of yourself, your actions, and your environment.

You are an individual with convictions. You are important. And what you stand for is just as important. Place a high value on yourself and your judgement. Don't allow others to distract you. Don't allow others to put you on the defensive. You owe no one an explanation for your personal decisions and people who accept you don't expect one. "What will people think" is no longer a factor in your decision making process. Your responsibility, first and foremost, is to yourself and what you believe in. To be in control, you begin by behaving like you know what you want for yourself. Jess Lair, author of **I Ain't Much, Baby--But I'm All I've Got**, put it this way: "From this time on, I am never again going to do something that I don't deeply believe in."

KNOW YOURSELF

Who Are You and What Turns You On?

What is your favorite color? Pastime? Food? Sport? Car? Clothing? Furniture? Season? Do you prefer city or country life? Do you like music? What kind? Do you like to read books? What kind? What types of movies or television programs do you enjoy? What kind of people do you like? What do others like about you?

Everyone has likes, dislikes, tastes, judgements, attitudes, biases, and values. But many people draw a blank when asked what they are. Why? Maybe they're afraid of finding out who they really are. Maybe they find dwelling on such personal things to be self-indulgent. Maybe they take themselves and their experiences for granted.

The truth is that **knowing yourself** is basic to your sense of self-worth. Without a positive opinion of yourself, you will never control your life and experience true success. Having self-confidence is what gives you the strength to go after new experiences and opportunities. It also provides a cushion against failure and misfortune.

The process of getting to know yourself is never-ending. You are continually adding new experiences. To maximize your potential, you must periodically ask yourself: "What do I do well? What are my skills? What are my personal strengths? Where can I improve myself? What are my interests and preferences?" Knowing who you are and what you have to offer to the world around you is essential to building and maintaining a sense of self-worth. If provides direction for your life.

> "Any man who wants to succeed must begin by believing wholeheartedly in his own ability. He cannot expect others to believe in him unless he believes in himself, for it is a cardinal rule of life that the world takes a man at his own valuation."
>
> -Jacob M. Braude, **Source Book for Speakers and Writers**

What Do you Want?

Life offers many roads to travel. Yet, some people wander aimlessly through it without realizing any emotional, intellectual or financial success. Why? Often because they fail to set meaningful and attainable goals. They pass up countless experiences and opportunities because they never think about where they want to go and how they want to get there.

By knowing yourself, you can set goals that utilize your skills and strengths and are compatible with your interests. You can set goals that add to your experiences. And you can set goals that challenge you to improve. Where do you want to be five or ten years from now? In the next six or twelve months? How do you plan to get there?

Plan for Success

A plan is a design for getting you from some starting point to a defined goal. It should lead you into action . . . move your closer to achieving your goal.

Some people ask, "Why plan? Nothing ever stays the same anyway." True. Change is a fact of life. But planning helps you anticipate this change. You're better prepared to take alternative courses of action. It also helps you avoid making mistakes and missing out on good opportunities.

HERE'S HOW THE PLANNING PROCESS WORKS:

1. Evaluate your present situation in relation to your future goals. What resources do you have? What resources do you lack?

2. Outline a step-by-step procedure for getting what you want. You may have to strengthen your resources by adding experiences or knowledge. You may have to set aside time on a regular basis to do the things necessary to achieve your goals.

3. Estimate the time it will take to achieve your goals and each step or milestone along the way. Be realistic. Set deadlines. They can be excellent motivators.

4. Set policies based on your attitudes and values to mark boundaries for your actions. For example, during a certain period in your life, you may refuse to take on any extra time commitments.

Your plan is a map of your future. Use it to guide you through each day of your life.

> He who every morning plans the transactions of the day, and follows that plan, carries a thread that will guide him through the complexities of the most busy life. The orderly arrangement of his time is like a ray of light which darts itself through all his occupations. But where no plan is laid, where the disposal of time is surrendered merely to the change of incidents, all things lie together in one chaos . . .
>
> -Victor Hugo

CAUTION:

1. Be flexible. No plan is set in stone. If it isn't working, change it!

2. Don't overplan your schedule. It only leads to frustration and unnecessary stress.

3. Don't become so engrossed in planning tomorrow's success that you miss out on today. Today is the process of getting to tomorrow. Today is life itself.

FIND VALUE IN THE PROCESS OF WORKING YOUR PLAN

Maintain a Positive Mental Attitude

The story is told about the man who had two sons. One was an optimist, and the other a pessimist. For Christmas one year, he bought his pessimist son an expensive electric toy with lots of optional parts that made it do all kinds of things. He wrapped it in a big box with pretty paper and a big fancy bow. For his optimist son, he filled a box with horse manure and taped a piece of newspaper over the top. On Christmas morning, the pessimist son opened his present and said, "Oh, no! Not another one of these. It'll probably break before I have a chance to play with it. And look at all these parts. They'll be lost in no time." When the optimist opened his present, his eyes lit up with excitement as he started eagerly digging into the box. Puzzled, his father asked, "Why are you so excited?" To this the boy responded, "Well, with all this manure, there has to be a pony in here somewhere."

The process of working your plan is life itself . . . what you do from day to day, moment to moment. If you maintain a positive outlook, if you have the capacity to see beyond the "manure", you are on the road to success. You may get detoured, but the prospect of finding "ponies" gets you back on track.

Positive thinking is a mind-set. Put simply, you can focus on the positive side of daily life or you can dwell on the negative. It's all in how you look at things.

> The optimist goes out and rings the bell;
> The pessimist gives up and wrings his hands.
> The optimist sees a leaf and thinks of shade;

The pessimist sees the same leaf and thinks of a rake.
The optimist looks at the moon and speaks of love;
The pessimist thinks of the moon and complains of the high cost of the space program and the effect on his taxes.
The optimist feeds on faith and enriches his opportunities;
The pessimist nibbles on the negative and weakens his courage.
To the optimist, a fireplace is a center of warmth and beauty;
To the pessimist, it is a source of smoke and ashes.
The optimist enjoys the present;
The pessimist worries about the future.

-Business Opportunity News,
January, 1984

One of the best ways to maintain a positive attitude is to surround yourself with positive people. Stay away from the "doom and gloomers". Misery loves company.

And remember . . . your ability to maintain a positive mental attitude may be the cornerstone for building a successful business. Success adores the positive.

> "For many years it has been part of my business to indulge in the analysis of businesses and the personalities who operate them. Without one single exception, successful business results from the power released by the positive attitude of mind. With scarcely a single exception, the failures analyzed have been dominated by the negative attitude. I have yet to find an outstanding successful individual who has a negative outlook. I have yet to find a failure who had positive qualities overweighing the negative. I hae yet to find even one top executive, man or woman, who doesn't agree with these findings. Success adores the positive."
>
> -Douglas Lurton

Sell Yourself

Often we hear of men and women who become listless, ill, and inactive after retirement. We know homemakers who suffer "empty nest syndrome" when their children leave home. Why? Because they don't feel needed anymore. Everyone needs to feel needed.

People who feel useless often devote their entire lives to one single person or thing. When their sense of feeling needed is dependent only on their job, their business, their career, or their family, they find themselves at the mercy of the persons or things they live for.

You are a lovable and capable person with a multitude of skills and abilities. You can't afford to derive your sense of being needed from only one dimension in your life. You have a lot more to offer. Spread yourself around.

Take an active role. No one is going to knock on your door and say, "Hey, I need you. I hear you have a lot of skills and human qualities." You have to sell yourself. You have to tell people who you are and what you can give them.

Now, how do you sell yourself without imposing on them as a self-styled expert? One of the best ways is to draw upon your own real-life experiences that relate to their needs, then lay them out with an attitude of helpfulness. Let them know that you've "walked in their shoes" and that you truly care about their feelings. You care, too, that they avoid making the same mistakes you've made.

Don't be surprised if you are rejected initially. But you can be prepared to overcome any objection when the stakes are so high. What stakes? Friendship, sales, happiness, success and satsifaction, to name a few.

Make the Most of Your Experiences

Some people wake up in the morning dreading the day ahead. It represents nothing more than a series of tasks they don't want to do. They approach each of these activities with an "I can't wait until it's over" attitude.

Even the most optimistic person will admit there are some things he doesn't like to do. But he knows that the process of achieving his goals is life itself. And he realizes that to get the most out of daily living, he must look for positive value in every experience. Every event, whether positive or negative, is related to his growth as a person.

Do you approach the experiences in your daily life positively? Let's look at some examples. Is mowing the lawn a chore you put off and complain about? Or is it an **opportunity** to get some fresh air, sunshine and exercise? Is reading your child a book something you do out of guilt? Or is it an **opportunity** to get to know him better? When you unlock the door of your business every morning, do you dread the thought of getting ready to open? Or do you view it as an **opportunity** to better serve your customers?

Think about how you can benefit from every task or activity you pursue during the day. You will find new meaning in the "little things" life has to offer.

Meet and Overcome Challenges

We can all meet and overcome challenges throughout life. Some of these challenges come from other people or result from circumstances beyond our control. Others are self-created out of a desire to achieve certain goals.

The pessimist avoids challenge and views each problem he confronts as a barrier to his happiness and success. The positive thinker sees in every problem, an opportunity to demonstrate his abilities and improve himself.

> "Every successful business in the world is in existence because its founder recognized in a problem or need an opportunity to be of service to others. Every problem or need in your life is in reality an opportunity to call forth inner resources of wisdom, love, strength, and ability."
>
> -J. Sig Paulson

Whether you respond to every challenge you meet will depends on two things:

1. The degree to which you are interested in the activity and its potential rewards.

2. The degree to which you feel confident you will succeed.

The price you pay to overcome challenge can be measured in time, effort, and frustration. But each challenge you overcome will lead you closer to what you want in life.

Be Flexible and Open to Improvement

Change is an inevitable part of life. Yet so many people choose to resist it. When thrown off course, they lose their balance. They close the door on new ideas and miss out on opportunities.

To be a winner, you must be flexible. You must be able to roll with the punches. Recognize when tried and true methods stop working for you. Make the adjustments necessary to achieve the results you seek.

Be willing to look at alternatives. When confronted with something new, test the water. Look for opportunities. Assess the benefits you can gain. Evaluate whether you can draw on past experiences. Gather information. Be open to new ideas. There's more than one way to get what you want out of life.

> "It seems to me that the key to our future can be summed up in one word--adaptability. In a rapidly changing world it is often a matter of survival to change one's mind--one's attitude--one's way of thinking and doing things. Even when survival is not at issue, we should all know how to adjust to changed circumstances in order to capitalize on new opportunities."
>
> -Dudley Dowell

And remember that no matter how good you are or how much you know, there's always room to get better. There's always more to learn . . . through your successes, through your mistakes, through other people, through reading or formal education. Only by opening your mind to the knowledge the world has to offer can you maximize your potential. You do not necessarily have to work **harder** to get what you want . . . work **smarter**.

Focus on Your Assets, Not Your Limitations

Some people spend a lot of time complaining about what they **don't** have and what others **do** have: "If I were more intelligent, I could do that" or "If only I had more money, I could do what Bill did."

Remember the song from several decades back that starts: "I complained that I had no shoes till I met a man who had no feet." The moral, of course, is to be thankful for what we have, to stop complaining about what we don't have. Comparisons with others can be deadly, especially if we see others as always having more talent, more education or more of anything than we have.

Sure, we all have limitations. But it makes no sense to be so preoccupied with them that we pass up chances to use our assets. We can use them to expand the limits of our capabilities, giving us more to work with.

For example, Barbara Krause dreamed for years about going into her own home-based word processing business. She had all the required skills and enough money set aside for equipment and start-up. But she lacked one thing--promotional know-how. For the past two years her attention was riveted on that one limitation. Thus, she was blocked into a do-nothing corner.

It wasn't until she switched her thinking over into the asset column that things began to happen. She discovered afresh that she had all the important things going for her EXCEPT ONE. And that one, she decided, was not **really** a limitation; it was an OPPORTUNITY to gain some additional knowledge, put it to work, and USE IT to help fulfill her dream. It was simply a matter of **focus**.

By focusing on your CAN DO attitude, you can become a powerhouse. World-class athletes all have it. Mountain climbers have it. Top business executives have it. Those who safely walk across a bed of red-hot coals have it to the extreme. You **can** and you **will** fulfill your business goals when you set your mind to it.

Focus on What You Can Control

There are a lot of things you can control in this world. And there are a lot more things you can't. You can influence what happens in your immediate environment . . . that of your family, friends, employees, customers and community. You cannot singlehandedly solve the problems of the world.

Some people never make this distinction. They react to the violence and bad news they hear and read about by throwing their hands up and saying, "What's the use?" Feeling helpless, they become depressed about the state of the world.

The opposite attitude may lead to problems, too. Take the case of Mario Rosetta, a transplanted Nicaraguan who owned a small grocery store. Whenever he received an appeal for aid from his former countrymen, out of compassion he would literally empty his cash register. After several years, his desire to help was exceeded by the size of his personal debt; and bankruptcy prevented him from making any more contributions.

Be sensible in your search to contribute. Treat your family, friends and employees with respect; set an example for your children; operate your business with honesty and integrity. You are providing jobs for your community and products or services they need and want. In time, you may affect the larger world around you.

Manage Your Time

> "A sense of the value of time--that is, of the best way to divide one't time into one's various activities--is an essential preliminary to efficient work; it is the only method of avoiding hurry."
>
> -Arnold Bennett

Time is a valuable resource. Very little worthwhile can be accomplished without investing time.

Many people find themselves in a constant battle against the clock. They are always in a hurry but never on time. Or they panic as time closes in and everything seems to demand their attention at once. This chronic sense of time urgency is frequently caused when people:

1. Under-estimate the time necessary to complete certain activities.
2. Over-estimate their capabilities.
3. Plan so many activities than one slip-up throws off the entire schedule.
4. Don't plan at all.

Other people never experience this race against time. Instead, they waste a lot of time thinking about what they have to do but never get at it.

Often these people are dreamers. They are never in the "here and how" but are way out in the future. They spend their time dreaming of the day when their "Ship will come in."

If you or your employees are confronted with one of these two time dilemmas, then consider the following time management approach.

1. **Plan your days, weeks and months.** Use a pocket calendar to schedule your commitments.
2. **Be realistic.** Allow a reasonable amount of time to accomplish each task or activity. Give yourself some room in case something goes wrong.
3. **Set short-term priorities.** At certain times, one aspect of your life will demand more time and attention than another. Anticipate and plan for such times.
4. **Set deadlines and time limits.** Once you've made a commitment to do something and set a reasonable amount of time to accomplish it, stick to it.
5. **Balance your overall time commitments** between your business, family, and personal life.

Maintain a Sense of Humor

A vacationing businessman suffered a near fatal accident while downhill skiing. Several operations and months of therapy kept him hospitalized for over a year. When friends came to visit, he held up X-rays of his severely broken bones and quipped, "Would you like to see my vacation pictures." According to his wife, their sense of humor was one of the factors that helped them to survive this major setback in their lives.

> "A keen sense of humor helps us overlook the unbecoming, understand the unconventional, tolerate the unpleasant, overcome the unexpected, and outlast the unbearable."
>
> -Dr. William A. Ward

Use Your Past to Chart the Future

Many people insist on making their parents, their upbringing, and their misfortunes of the past their excuse for giving up on the future. This attitude of "things were bad yesterday, so they'll be bad tomorrow" blocks productive action. What chance is there to overcome the negative experiences of our past if we allow them to tarnish our future?

You can't change yesterday. But you can learn from it. Use it as a benchmark for moving forward. Evaluate what happened, which actions you should avoid in the future, and which actions you should repeat. Every day is a new day. Make it count. Don't look back unless it helps you look ahead.

> "The ultimate in wisdom is to live in the present, plan for the future, and profit from the past."
>
> -Jacob M. Braude, Source Book
> for Speakers and Writers

MAKE THE MOST OF YOUR RELATIONSHIPS

You Need People and They Need You

Most of what we do, day in and day out, involves interacting with people -- family, friends, neighbors, employees, customers, supervisors, co-workers, salespeople, etc. People are emotional, intellectual, and financial resources you need to help you accomplish your goals. You need their talents. You need their cooperation. You need their emotional support. And they need you for the same reasons.

Some people use and exploit others on the way to the top. They give nothing of themselves in return. And they find "success" can be pretty lonely. When you appreciate people and what they can do to enrich your life -- when you make the most of your relationships -- you will understand real success.

Promise Only What You Can Deliver

Do you know people who pout, don't speak, slam doors, and when you ask what's wrong, they respond, "Nothing," through clenched teeth?

One cannot not communicate. While much of our communication is done with words, most of our communicating is done non-verbally. Our actions, body posture, gestures, facial expressions, and tone of voice communicate messages to others. Frequently, these messages are inconsistent with the words we use. And, usually, the non-verbal message prevails. So when you say to someone, "I'll call you next week" and you don't call, or "I'll send you some information" and you never send it, you lose credibility. You are no longer a believable person.

Honest communication is essential to building effective relationships. Follow up on your words with action. And follow up on your actions with the appropriate words.

Respect Others and They Will Respect You

Respect for yourself and others is essential for developing good interpersonal relations. Respect is a two-way street. When you respect others, they respect you.

What does it mean to respect someone? It means you are willing to give him a second thought. It means you perceive him as a unique person (just like you!) with feelings, attitudes, and ideas that are important.

You can demonstrate your respect for others by:

1. Giving them your time and attention.
2. Being sensitive to their need to be listened to and have their uniqueness recognized.
3. Being empathetic. Everyone, because of their background, personality and experience, has their own interpretation of every situation. You can better accept values and opinions that differ from your own by trying to "walk in their shoes".

When you extend respect, you are saying that everyone has something worthwhile to give. You help build their sense of self-worth. They in turn, reciprocate. When others listen to you and give you a second thought, you develop self-confidence and a greater sense of self-worth.

Learn to Trust

For some people, trusting others is a risk they cannot bear to take. Somewhere along the line, they placed their trust in someone and were deeply hurt. That painful memory prevents them from doing so again.

Trust, like respect, is essential for developing interpersonal relationships. The fear of rejection by a few isn't worth depriving yourself of what most people can give you. If you can accept yourself -- if you truly believe in yourself and your capabilities -- your value as a person won't depend on whether or not others accept you. You are your own person. You can trust without the fear of being hurt.

When you place your trust in someone, you assume the following:

1. He will fulfill his obligations and promises to you.

2. He will not misuse, misjudge, or undermine the feelings and thoughts you share with him.

3. He will not use your weaknesses as weapons to hurt you.

Should you trust everyone? Can you be assured everyone you know will fulfill these expectations? Probably not. But you can find out their limitations. For example, suppose you share something in confidence with someone. If he broadcasts it all over town, you know how much trust you can afford to give. Then you can accept him within those boundaries. You won't expect anymore than you know he can deliver.

Make Your Feelings and Attitudes Known Through Effective Feedback

Feedback is the way you respond to another person's words or actions. When the feedback you give is constructive and useful, open and honest communication is encouraged. When the feedback is destructive, it creates defensiveness and mistrust, limiting communication or shutting it down altogether.

Your skill in relating to people can be improved by following some basic rules of giving feedback:

1. **Describe or acknowledge another person's feelings, but don't judge.** The last thing a person wants to hear when emotionally upset is, "You shouldn't feel that way." Never negate the feelings of another person. They are real and that person is entitled to them. Instead, acknowledge that you understand by saying something like, "You seem upset" or "So, you've had a bad day."

2. **Criticize specific acts rather than the total person.** General comments like "you never" or "you always" are unfair and cloud specific issues. Comments like "you are lazy" or "you are irresponsible" equate the whole person with a specific act. People generally respond with a counterattack and a non-productive battle ensues. If you say instead, "I find your behavior upsetting", and you are specific about what that behavior is, you won't be misunderstood.

3. **When possible, express your criticism of another person's actions in terms of its effect on you.** A

statement like, "I feel frustrated when you..." is more effective than "you" statements that tend to put the other person on the defensive.

4. **Give feedback only if a person is in a state of readiness to accept it.** No matter how tactful and skilled you are, an angry or frustrated person is in no mood to accept criticism.

5. **Direct your feedback toward behaviors the person can control.** Badgering someong about something he did yesterday or last year is pointless and destructive, unless he can do something to change it. Make your criticism constructive.

6. **React to another person's behavior and words as soon as possible.** People who save up their anger end up exploding over the "straw that broke the camel's back". Their response is completely out of proportion to the seriousness of the final incident. They fire off dates and times the same "crime" was committed over the last year. You don't have to build a case to justify your anger. Don't save it up. People deserve to know where they stand.

7. **Be careful about giving advice to help people solve their problems.** Often, all they want is a "sounding board" to talk through their feelings. If they specifically ask for your opinion, offer alternatives rather than a specific suggestion. When you give advice, you are placing yourself in a vulnerable position. They may argue, tempting you to defend yourself. Present your ideas rather than sell them. Then, let the other person decide what to do.

Be Constructive When You Disagree

Everyone has values, beliefs and attitudes. And we have a need to feel we are not alone in our thinking. The more people we can find to agree with us, the more confident we are about our beliefs.

Disagreements between people are based on differences in values, beliefs and attitudes. When someone's thoughts or ideas are challenged, his first impulse is to say or imply, "You're wrong."

Conflict is an inevitable part of interacting with people. It would be a boring and indifferent world if we all agreed with each other. A lot of positive things come out of a healthy disagreement.

When you find yourself in conflict with someone, the situation can be handled so you both come out winners. Here's how:

1. Never say or imply, "You're wrong." This approach leads to offensive-defensive arguing, and someone ends up the loser.

2. If you have strong evidence to support your views, say something like, "Assuming what you say is true, how would you explain...?" This gives the person an opportunity to modify his position without losing face.

3. Remember everyone is entitled to his own opinion. Acknowledge that right whether or not you agree.

4. Make it clear that you find what the person has said disagreeable, not the person himself.

5. When you are attacked, don't counterattack. Ask for clarification.

6. When you **must** reach an agreement, try to focus on common interests rather than on your positions. Look for creative answers that would satisfy the concerns and interests you both share.

7. Be quiet and listen. Delay your judgement until you have heard the whole story. Ask questions to check out your understanding.

Some disagreements and conflicts will be resolved when you make an adjustment in your attitude. But what if the adjustment should clearly (beyond all shadow of doubt) be made by the other person? You may find it necessary to correct others. It's not easy if you want satisfactory results.

According to Dale Carnegie, these are the rules for correcting others:

1. Give a challenge to make a change.
2. Make the correction seem easy.
3. Mention your own mistakes before correcting others.
4. Make the other person glad to do what you want done.
5. Set a standard--a fine reputation--to live up to.
6. Praise the slightest improvement; praise every improvement.
7. Let the other person save face.
8. Begin with praise and honest appreciation.

Help Make People Feel Good About Themselves

When you trust and respect people, act out on your promises to them and use the communications skills just presented. You boost their self-confidence. You show them that they are important to you and you value your relationships with them. Don't stop there. Tell the people in your life that you value their talents, their cooperation, their emotional support, and their company. They will do the same for you.

> "Rivers are like lives. The more contributions they gain from friendships, the bigger they grow, Friendly, quiet little streams that join them in their long, troublesome journey to the sea, make them strong and mighty. The helpful contributions of love and kindness we gain from friends make our journey of life better and richer."
>
> -Jacob M. Braude, **Source Book for Speakers and Writers**

MANAGE STRESS IN YOUR DAILY LIFE

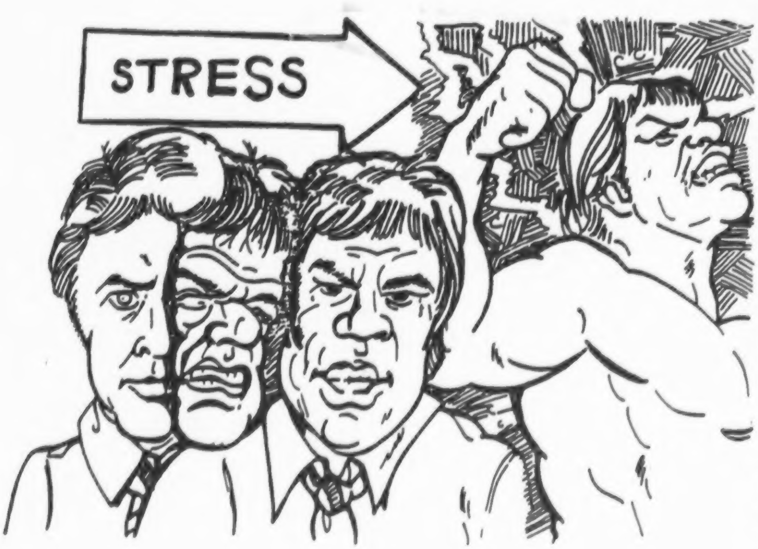
What Is Stress?

According to Dr. Selye, author of The Stress of Life, stress is:

- the wear and tear caused by life.
- a condition resulting from a specific syndrome of biological events.
- the mobilization of the body's defenses that allow us to adapt to a threatening event.

Stress can be good or bad. The good kind of stress is what helps you escape from a mountain lion or drives you to meet an exciting challenge. Stress can be dangerous when it is too prolonged, comes too often, or concentrates on one particular part of the body.

It works like this. In a dangerous situation, the heart and breathing rates increase, the blood pressure rises, the body metabolism increases, and the muscles tense. The body is ready for action. When the immediate danger disappears, the body relaxes and returns to normal. If a threat continues over a prolonged period of time, and the body isn't allowed to relax and return to a normal state, there is wear and tear on the organs. Depending on individual characteristics, this can lead to high blood pressure, heart attack, ulcers, irregular heartbeat, diabetes, or nervous colon.



Your health depends on your ability to deal with the stress of life.

What Causes Stress?

Stress can be caused by change. Death of a spouse, family member, or friend, divorce, personal illness, career change, change in financial state, change in residence, or change in working or living conditions are among the many causes of stress.

Lack of control, low pay, and limited training can cause job-related stress. Another major factor is personality. Have you heard about the Type A personality? Two doctors in San Francisco did a ten-year study and found a certain type of personality to be more stress-prone and three times more likely to get heart attacks. The characteristics of these Type A people are:

1. They have a tendency to overplan. Their schedules become so tight that the slightest setback is a major disaster.

2. They are involved in multiple thoughts and actions. You might see a Type A eating a meal, watching TV, reading the paper, and carrying on a conversation all at the same time!

3. They are fast talkers and frequently interrupt others. They finish other people's sentences for them.

4. They need to win to be happy with themselves, even in trivial situations.

5. They love recognition and are over concerned with earning money as proof of their success.

6. They can't relax without feeling guilty.

7. They have little patience. They hate waiting in lines. They can't stand delays or interruptions.

8. Their strong desire for achievement and recognition causes them to be overextended in too many projects and activities.

9. Their competitive drive goes beyond normal limits.

10. They are workaholics with little time for family, friends, recreation or exercise.

The Type B person, on the other hand, is extremely easy-going and laid back. Are you stress prone? Most of us are somewhere in between. But even a Type B person can occasionally slip into Type A behavior.

Recognize the Symptoms of Stress

You can't control stress unless you recognize the symptoms. When your body is reaching the point of stress overload, you may notice the following danger signals (from Stress /Unstress by Dr. Keith W. Sehnert):

-insomnia (can't fall asleep)
-irritability
-sudden outbursts of anger and hostility
-strained relationships
-accidents
-poor judgement
-change in appetite
-headache
-apathy
-indecisiveness
-excessive day dreaming
-increased use of cigarettes, alcohol or drugs
-excessive worrying
-forgetfulness
-frequent depression

Tune into the symptoms and take positive action to control your stress before it controls you.

Regain Control

What can you do when you feel yourself losing control?

1. You can alter your interpretation of the situation so it has less importance and is less stressful. Adopt a "so what" attitude. A good exercise is to say to yourself, "If I were to die tomorrow, is what I'm fretting about today really worth it?"

2. You can change the circumstances causing the stress. If something isn't working, fix it!

3. You can increase your tolerance for stress through exercise, or self-help groups, and emotional release.

4. You can take emergency measures such as:

   - Clench your fists (or all your muscles) for 10 seconds, then suddenly relax.
   - Take a deep breath. Hold it for 10 seconds then exhale completely, letting your body go limp.
   - Close your eyes and imagine yourself lying on a warm waterbed. Hold this image for at least 10 seconds.
   - Do something strenuous (depending on your physical condition, of course) for a short time; then relax.

Unfortunately, some people choose to avoid the problem altogether. They walk out on their families or their jobs. They daydream or fantacize through books, movies and television. Or they abuse drugs and alcohol to help them forget. But the problem is still there!

Understand Your Emotions

Everyone has emotions. But not everyone can express them. Often this is because they have been taught to suppress their feelings...like the child who is told, "Big boys don't cry."

Emotions need to be expressed. They cannot be ignored. Knowing how to respond to your feelings is the key to emotional health and essential to controlling stress in your life. Only by identifying the nature of your emotions can you deal with them appropriately.

Take guilt for example. Guilt is the feeling we get when we pass judgement on ourselves for something we should have done or said but didn't. When you feel guilty, ask yourself, "Is there a good reason for making the choice I made?" Then convince yourself that you did what you had to do under the circumstances. To relieve the guilt you feel:

-apologize to whomever you hurt.

-forgive yourself and don't repeat the mistake.

-if possible, rectify the mistake.

Then, forget it and go on with your life.

Worry is another emotion we all encounter. Chronic worriers fret and fuss about things they can't control and do nothing about the things they can. When you worry to the point of elevating your stress level, ask yourself:

-What am I concerned about?

-Is there a good reason for my concern?

-If there is, what can I do about it?

Then prepare yourself for the problems you anticipate or take action to diminish your agony. Worrying is wasted energy you can put to more productive use.

Rekindle Your Relationships

At times, we may have to concentrate on taking the stress out of our relationships. We need to remind ourselves that friendship is a valuable commodity. When you feel your relationships slipping:

1. Assign top priority to your relationships as you plan your time and activities. Spend more time deepening your relationships with a few significant people.

2. Show you are willing to be open and honest. Share your problems and feelings with someone close.

3. Dare to talk about your affectons. Your spouse, children, family and friends need to hear you say, "I love you."

4. Allow your loved ones room to expand and grow.

5. Be willing to apologize and willing to forgive.

Learn to Relax

Jim was a forty-eight year old owner/operator of a small, successful restaurant. He was an active leader in his community. As a devoted environmentalist, he was politically involved at the local and state levels. On the side, he maintained a real estate license and wrote articles for magazines. And he had every classic characteristic of the Type A personality.

When the last of his children left the nest, Jim started suffering chest pains, headaches, and "anxiety attacks". At the breaking point, he sought professional help. To his surprise, he found he had never experienced the feeling of relaxation. He had to be **taught** how to relax.

When stress levels get dangerously high and you feel "keyed up", and you have muscle tightness, rapid breathing, difficulty in swallowing, and an uptight feeling in the pit of your stomach, **you need to relax.** People generally relax by doing something they enjoy. Some have a cabin in the woods. Others listen to soothing music. In his book, **Stress/Unstress**, Dr. Keith W. Sehnert recommends the following "quick relaxers":

1. Take a catnap.
2. Close your eyes and let your imagination put you in one of your favorite places, parks, or vacation spots.
3. Massage your forehead.
4. Inhale while slowly counting to eight. Hold your breath while slowly counting to eight, and exhale while slowly counting to eight.
5. Make up a new way to do an old thing.
6. Sing in the shower.
7. Spend some time at a hobby you enjoy.
8. Stretch away your tension.

9. Sit or lie in a quiet room. Close your eyes. While breathing slowly through your nose, relax all of your muscles starting with your feet and working up to your head.

These relaxers will help you get off the merry-go-round for awhile. They will help you counter your body's reaction to stress.

Take Care of Yourself

You can manage stress more effectively when you are well fed, well rested, and get enough exercise.

The foundation for good eating habits is three "squares" a day. Maintain your ideal weight and avoid junk foods. Don't skip meals. Your body needs fuel to keep going. It helps you resist disease and gives you the energy you need to handle the wear and tear of daily life.

Regular sleep refreshes and rebuilds you. It keeps your nervous system in balance. Without it, you are more prone to illness and less able to handle stressful situations.

Regular exercise clears the mind and calms everyday tension. It is as effective as tranquilizers without the dangerous side effects. Some studies have found jogging to be more effective than pills and traditional psychotherapy in controlling depression.

Stress management is essential to your health. What good is success if you're too sick to enjoy it?

WHEN YOU'RE DOWN IN THE DUMPS, DO SOMETHING ABOUT IT!

Life is full of peaks and valleys. On the peaks, the world is bright and we are productive and happy. In the valleys, the world is gloomy and we feel dejected, apathetic, listless and helpless.

Depression is a feeling of helplessness. We may feel helpless because we have to do something we don't want to do. Or we want to do something we can't. Or we want something to happen but we have no control over making it happen.

A prolonged case of the "blues" is unproductive because people deny themselves the pleasures of today and find no hope in tomorrow. Their lives seem empty, unproductive and meaningless.

We all get depressed sometimes. How can we overcome it so we can get on with our lives? First, identify what is causing the feeling of helplessness. Ask yourself, "What do I want to happen that isn't happening?" Then ask yourself, "What can I do about it?" Action is the most constructive way to deal with depression. If you can't do anything about the desire, event, or feeling causing your depression, then direct your energy toward an activity that will prove personally productive.

FAILURE IS A PART OF SUCCESS

Throughout your journey through life, you will encounter failure. It's a given. Some people rationalize their failure away: "I didn't want their business anyway" or "I wasn't cut out for marriage". Others blame everyone else for their misery. Some people just assume they are "losers", destined to fail at everything they try.

Successful people know that failure is a very real part of life. They learn from it. They use it to mobilize themselves -- to move forward to the next day, the next challenge, next opportunity. They know that every failure is a step to success.

> "It is a common mistake to think of failure as the enemy of success. Failure is a teacher--a harsh one--but the best. Pull your failures to pieces looking for the reason. Put your failure to work for you."
>
> -Thomas J. Watson, Sr.

SUMMARY

When it's all "cut and dried", will you be a true success? Will you be able to look back over your life and be fulfilled in every way--emotionally, socially, intellectually, physically and financially?

This chapter gave you some practical ways to help you get the most out of your life. You learned how to take charge of your destiny. You learned that to be truly happy, you have to please yourself, first and foremost. Through a practical exercise, you got in touch with yourself, who you are, what you're good at, and what you want out of life. You learned how to plan for your success.

You learned that the process of working your plan is life itself. Your success depends on your ability to find value in day-to-day living. You learned ways to maintain a positive attitude, sell yourself, and make the most of every day and every experience. You learned the advantages of being flexible, meeting challenges, and recognizing opportunity. You learned how to manage your time more efficiently, and how to use your past to chart your future.

Success is also dependent on whether or not you make the most of your relationships with the people around you. You learned about mutual respect and trust. You learned how to give effective feedback and disagree constructively. You learned how people can enrich your life and how you can enrich theirs.

Your ability to deal with stress is also related to your success. You learned what stress is, what causes it, and what it can do to your body. You learned about the Type A personality, how to recognize the danger signals of stress, and what to do when you experience them. You learned ways to prepare yourself for the stress you encounter in daily life.

Above all, you learned that you have a lot of choices in life. Whether you experience true success depends on what you choose to do with your personal resources and the opportunities that surround you.

"You will attain true success when your efforts confer a direct and lasting benefit on your fellow men as well as on yourself; when you are actuated by a sincere desire to help others; when your standard of success is based on self-interest plus the interest of others; the greatest individual successes are always found to be those noble characters who have labored that others would benefit.

"Again, true success is achieved when you have made the best use of your time for a worthy purpose, when you have studied, cultivated and developed your physical and mental equipment to the highest possible degree of efficiency. Health, contentment and happiness are the rewards for the right use of your equipment."

-Dr. Hamilton Cameron

CHAPTER 17

Managing people

How to get the most out of anyone you hire

"Have you been to Olson's Variety Store lately? They have a new sales clerk there and she was so nice! She not only knew the difference between all the different toasters, she offered to gift wrap the one I selected at no extra charge!" (Customer A.)

"Oh, I've never met such a rude salesperson in all my life! I practically had to beg her to wait on me and then she acted like she was doing **me** a favor. I can tell you one thing - I wouldn't go back to Albrecht's Hardware Store if they were giving toasters away!" (Customer B.)

You've heard comments and conversations like the ones above all your life. In fact, you've probably even been involved in a few. So, how seriously should you take what your customers are saying?

The answer is **very**.

In a small business, your reputation can mean the difference between success and failure. And reputation is what Customer A and Customer B are talking about. One is telling everyone what a marvelous experience she has had. The other is telling all her friends and relatives how awful it was to shop at Albrecht's. There is no way of telling how many customers would be lost as a result of Customer B's experience.

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Often the only contact the public has with your business is the people you hire. Therefore, it's very important that you hire the **right** person for the **right** job.

How employees feel about their jobs will directly influence how they treat your customers. For example, note the following comments of two employees:

"I just love my job. The Johnsons couldn't be better bosses. They treat me with respect and seem to value my opinion. I feel that what I'm doing is really important." (Employee A.)

"I hate this place; I hate everything about the people I work for. As far as I'm concerned, they can all jump off a bridge. I can't wait until a better job comes along." (Employee B.)

Again, it doesn't take an expert to see that you have a problem if Employee B works for you.

In this chapter we will deal with the hiring and supervision of employees for your small business. You will learn:

1. How to hire an employee.
2. Where to look when you want to hire employees.
3. How to conduct an interview.
4. How to discipline and train employees.
5. How to motivate employees.
6. The principles of good management.
7. How to discharge an employee.

HIRING EMPLOYEES

As an owner/manager of your small business, you must decide whether to hire employees to do part of your work for you. While some people think this involves just "going out and hiring someone," it's not that easy.

A manager does not manage work -- he manages the people who do the work. The better the job done by the people who do the work, the easier the manager's job. The opposite is just as true.

So, what's needed is a plan -- a logical progression of steps to help you hire the best people for the job. The steps are:

1. Identify a need.
2. Write a job description.
3. Recruit applicants.
4. Conduct interviews of possible candidates.
5. Check references.
6. Make the offer.

Let's take a closer look at each.

Identify a Need

This step should be self-explanatory. At some point, you realize you're spending virtually all of your waking hours working at or for your small business. That may be a commitment to its success. But it might also be inefficient.

Sooner or later you realize more and more time is spent handling details and tasks someone else could do for you at a lower cost. (Remember, your time has value, too.) "I feel like I'm buried in paperwork," is a common complaint. Or, "the telephone won't give me a minute's peace to do the work I need to do." Perhaps it might be something like, "I need to be out there selling."

Whatever the words, the complaint is the same: "I'm spending too much time doing one thing, and I need to do something else. I need some help."

Okay, in general terms, ask yourself what you **need** to spend your time doing and what you are **actually** spending your time on. Find some surprises? Most business people would be surprised at how they spent their time if they really knew.

Armed with this information, you can decide what tasks you should do yourself and which someone else should do for you. You may find what you need is a production manager, or a salesperson, or an office clerk -- which brings us to step 2.

WRITE A JOB DESCRIPTION

A job description spells out clearly what duties, responsibilities, special requirements and conditions are included in an employee's job. It should also state what percentage of time will normally be spent on each part of the job. For example, a receptionist's description might say that 75% of the time will be spent answering the phone and greeting customers and clients, 15% of the time will be spent filing and 10% of the time will be spent typing.

A job description is important for both you and your employees. It tells everyone what is expected of them and specifies their duties and responsibilities. It also gives you the basis for appraising each employee's performance.

The job description should include authority limits. Responsibility and authority are **not** the same thing. If you hire a retail salesperson, that employee is "responsible" for selling as much merchandise as possible. However, along with that responsibility, you may or may not delegate "authority" to make certain types of decisions. For example, if a customer comes in and says he will buy 25 team uniforms **if** he can get a discount, it is important for the salesperson to know if he can authorize such a discount. Perhaps in your business, no discounts are allowed. In that case, make sure the employee understands and follows the policy.

You should also think about the following as you write: How many people do I need to hire? Do I want full-time or part-time help? What should their specialties be? Will the hours be regular or will there be special projects requiring last minute work?

Write a job description for the position you want to fill. A sample form has been included on the following page. Format is not as important as content. Below is a list of the kinds of things you'll want to include in any description you write:

Job title

Effective date of the description

Who the position reports to

Job summary

Detailed list of all duties.

Any special requirements of the person performing the job.

Special qualifications and/or skills necessary, such as education, office machine skills, etc.

THE GREAT GIZMO COMPANY
(SAMPLE) JOB DESCRIPTION

JOB TITLE: Receptionist DATE: ________

HOURS: 8 a.m. - 5 p.m.

POSITION REPORTS TO: ______________________________

JOB SUMMARY: Answer all incoming telephone calls. Greet and direct customers, visitors and vendors. Type all reports and correspondence and maintain files.

JOB DUTIES:

1. Answer all incoming telephone calls, responding or directing to proper staff member. Screen out nuisance calls.
2. Keep accurate message file. When possible, inform caller when to expect an answer.
3. Greet all customers, visitors and vendors, directing them to the person they wish to see.
4. Type reports and correspondence as directed. Neatness and accuracy is required.
5. Maintain all records and files in neat and orderly fashion.
6. Review files quarterly, separating active from inactive files.

JOB REQUIREMENTS: Punctuality; accuracy in typing and record maintenance; friendly and cheerful manner with visitors; even disposition with people who may have complaints; neat appearance; good interpersonal skills.

QUALIFICATIONS:

Education: High School graduate, preferably some business school or office work experience.
Business machine: Electric typewriter, 60 WPM minimum.

RECRUITING APPLICANTS

Once you know **exactly** what you need from a potential employee, it will be much easier to decide how to go about finding that person. And with the current level of unemployment, you should have no problem finding applicants. In fact, you may find your problem is "weeding" through all the applications. So, before you choose any methods of finding employees, consider the following:

- How many applicants do you want to interview before making the final decision.
- Do you want them to call or send a resume?
- Have you been specific enough about what you need from an applicant? (i.e., number of years of experience, schooling, etc.)
- What is your salary range? Can you vary from that amount?

1. **Classified Advertising**
   An advertisement placed in the "Help Wanted" section of your local newspaper is the most popular method of finding new employees.

   "Help Wanted" ads are listed in alphabetical order, with a special section for part-time work and sales. These ads are relatively inexpensive and can be placed over the phone.

   Generally, Sunday is considered the best day for placing such an ad. However, if you live in a community where a local paper or "shopper" (as it is sometimes called) comes out on Wednesday or Thursday, you should consider placing your ad in that paper as well.

> SECRETARY
>
> Full time, sharp, efficient, type min. 80 wpm, org. skills, responsible handling customer calls, small office, ideal conditions, $1050 per mo.
> GIZMOS UNLIMITED. 999-1000
> Mr. Gizmo
>
> TYPESETTER

2. Employment Agencies

Almost every community has one or more employment agencies. These agencies have a list or file of unemployed people who have come to them to find a job.

The agency has already done preliminary interviewing to learn individual strengths and weaknesses; therefore, your job has become that much easier.

Employment agencies make their money by charging either the company or the individual a certain percentage of the first month or two months salary.

3. Government Agencies

Every state unemployment office (where unemployment checks are issued) also has a job placement bureau.

You can call these offices and tell them what job openings you have available. If your needs match up with someone who is registered for unemployment, the agency will put the two of you in contact with each other.

4. Schools

Schools are a good source for job applicants, especially if you are looking for part-time help. There are two ways you can go about this: either contact the vocational counselor at the high school or college, or place a sign of your own in the student union or individual classroom buildings.

Going through the vocational counselor will save you the trouble of doing preliminary interviewing yourself.

5. Churches and Synagogues

Churches and synagogues are good places to find job applicants. Because of the high unemployment rate during recent years, some places of worship have started running job ads in their church bulletins. Priests, ministers and rabbis can also give you good leads on people in their congregation out of work.

6. Walk-Ins

If your business is already well-established, you will frequently have people walk in and ask you if you're hiring. If you have the time, ask them a few questions about their background and work experience.

It's a good idea to have a supply of employment application forms on hand for these walk-ins. When you are ready to hire, check through these applications. You might find exactly the applicant you are looking for and avoid having to go through the other channels listed here.

7. Current Employees

Your employees can often provide you with good leads for potential employees. When you know you will have a job opening, ask your employees if they know of anyone who might qualify.

Generally speaking, your employees will recommend only someone they feel will do a good job for you. One warning: Good friends may be more interested in socializing on the job than in working.

8. Friends and Relatives.

This can be one of your best sources and one of your worst. And, as with reviewing any other group of applicants, you must rely on your own judgement.

For example, if a friend says: "Hey, great! I've been wondering how I can keep John out of trouble for the summer. You know, at his age, all he thinks about is girls," you may have a problem. You have enough to worry about without watching John for the summer.

Another friend might say: "My son, Bill, just graduated from the University and he's always wanted to work in a business like yours. I'm sure he could do a good job for you." In that case, you might be well-advised to consider Bill for the position.

However, you might be misled in both cases. John might turn out to be a very hard working individual and fit right into your company. And Bill might just be looking for a "stepping stone" until another job comes along. The best thing for you to do is say, "I'll be setting up interviews next week. Have him give me a call on Monday."

Never hire anyone to keep peace in the family or maintain a friendship. An employee should be hired only if he or she is the best person for the job and for no other reason. There's no harm in giving your family and friends special consideration, but don't be swayed by your loyalty to them. Refusing to hire them in the beginning is much better than having to dismiss them later on.

9. Temporary Agencies

This might be the ideal solution for your employment needs, particularly if you need someone only at certain times during the year or for an immediate project. Call the agency, tell them what type of help you need, for how long, and they can send you someone that same day. The cost for this service will be slightly higher than what you would pay an employee doing the same work, but the temporary agency takes care of insurance, worker's compensation and any other problems that could develop.

If the employee does not work out, call the agency and have them send out someone else. The temporary is not your problem.

Temporary help is often used for routine, easy-to-train assignments, or highly specialized work such as accounting or computer technologies. Also, some companies find temporary help a good source of full time employees. If you are considering this, be sure of your arrangements with the temporary agency.

10. **Posting Neighborhood Signs**

Sometimes finding an employee for your small business can be as easy as placing a "Help Wanted" sign in your local supermarket or drug store.

The Employment Application

Before reading this section, please refer to the employment application form at the back of this chapter.

As we review the application form, you will see it's designed to give you a great deal of information about the applicant in a very small amount of space.

The "Personal Information" part of the application deals with simple facts: name, address, social security number, etc.

The "Special Questions" section may include questions not applicable to your situation. If this is the case, simply ask the applicant not to fill out that section.

The "Employment Desired" section will tell you if the applicant is employed currently and what he expects in the way of salary. It also asks if the present employer may be contacted. If the applicant answers "No", don't immediately assume there is something to hide. Often an employee feels uncomfortable telling his boss he is looking for another job.

The sections on "Education", "Former Employers", and "References", will be by far the most important for you to read. They give you a good idea of what the employee's history has been. One thing you will want to look at closely is how long they have stayed on a job and why they left. If the employee has held several jobs in the past few years, you should ask why. It's possible that there is a satisfactory explanation, but it is more likely this is an employee who is not willing to stay in one place long.

Conforming With Government Regulations

The United States Civil Rights Act of 1964 deals with discrimination in hiring on the basis of race, color, religion, sex or national origin.

It is unlawful for any employer of more than 15 persons to refuse to hire, to discharge, or to treat employees differently because of the above factors. In addition, many states have their own anti-discrimination laws dealing with age, sexual preference, and handicaps, which would directly affect small business or any business that has one or more employees.

To make sure your hiring practices are not in violation of any state or federal law, contact your state employment office. Inform them of your business, the number of people employed and the type of work you do. They will be able to tell you the laws governing hiring, training, discharge and any pre-employment tests given to applicants.

CONDUCT INTERVIEWS

The job interview is the most important step in finding an employee. Often this is the only contact you will have with potential employees before you hire them. Therefore, it is extremely important you take time to do a thorough job.

Start preparing for interviews well ahead of time by jotting down a list of questions to guide you. Don't feel you have to follow it to the letter if an interview goes in an unexpected direction. But a list does have its benefits. First, by asking all the applicants the same or similar questions, you can compare their answers easily.

Second, the list serves as a reminder of what you need to know about an applicant. It's easy to forget what needs to be asked when in the middle of an interview.

A third reason is you don't always know when you'll have to conduct an interview, as in the case of someone walking in to apply for work. One business owner has said, "I pick up employees when I find them, not when I need them." As a result, he feels he's avoided the past mistake of having to find the right person under pressure.

It may be helpful to think of the interview itself as having three component parts:

1. The Structure
2. Questions and Answers
3. Observations

The Structure

Have the applicant come in a few minutes early to fill out an application form. (You will find a sample form later in this chapter.) When this is completed, give yourself at least five minutes to review it before beginning the interview. You might give the applicants any literature you have on your company to look through while they're waiting.

Conduct the interview in privacy. Make it understood that you will take no phone calls or visitors during this time. This will give both of you a chance to relax and talk without being bothered.

Put the applicant at ease. Offer a cup of coffee or a soft drink. Most applicants will be nervous about the interview, and you will help them relax if you feel at ease yourself. It's also helpful to "make small talk" for a few minutes rather than jumping right into business. The basic rule to follow is treat an applicant the way you would like to be treated during a job interview.

Be conversational. Many inexperienced interviewers question job candidates as if they were in a police investigation. This really defeats the purpose. Putting an applicant on the defensive makes it much tougher to find out what he's really like.

Make sure you take notes during the interview. After two days of interviews, you won't remember who said what without notes in front of you. You might put a star or some other notation on the applications of the people you're especially interested in.

Be open and honest about the job. If you are hiring a receptionist, you might ask, "Sometimes we get between 40 and 50 phone calls a day from customers. Do you think you could handle that?" Or, "If an order comes in after 5:30 on a Friday, will you be prepared to stay and send it out?"

Be careful about asking personal questions. If, for example, a woman stated during the interview she has three young children, it is reasonable for you to ask if she sees any attendance problem if they are sick. It is definitely **not** all right to ask a young woman if she plans on getting pregnant within the next year.

Legitimate qualifications for the job are acceptable. When asking such questions, state the requirements of the job first. Show the applicant your written job description to let them know exactly what will be expected of them.

At the end of the interview, thank the applicant for coming in and tell them you'll let them know in a few days whether or not they've been selected. Be sure to follow through. Telling an applicant they didn't get the job isn't easy, but it has to be done. If you can, take the time to tell them why you selected another individual. This may help them on other job interviews.

Questions and Answers

Instead of just asking where an employee has worked (which the application tells you, anyway), ask what they liked best about that job, what was the worst problem they faced there, and how they solved it. Do they know anything about your business? Can they work under pressure?

One business owner decided to ask each applicant: "If I asked you to do something you felt was wrong, would you do it?"

He wasn't looking for a specific answer -- he wanted to see how each individual would handle such a situation. Many applicants were taken aback and assumed he was either looking for honesty or loyalty. The applicant who finally got the job replied, "I don't really know. I guess I would tell you why I objected to doing it, but if you still insisted, I'd do it."

Check skills and abilities closely, asking specific questions about their current or previous job, such as: What do (did) you do? How do you do it? Why is it done?

Ask questions that cannot be answered in one or two words, like, "Are you working now?" Instead, say, "Tell me about your current job." Encourage the applicant to do most of the talking. Remember, too, that they are trying to learn about you, so give them the opportunity to ask questions.

Observing the Applicant

Observe the person during the interview. You want to hire someone who will fit in well with your business, so it's important to use your own judgement here. How is the applicant dressed? Does he or she appear clean and neat? Do they talk too loudly or too softly? Do they smoke?

Pay attention to personality. You'll be working closely with this person. Look, also, for non-verbal clues. Does the applicant avoid eye contact? Fidgit? Chew nails or cuticles or have other annoying mannerisms?

Listen for ideas, not only facts. Particularly, listen for **how** something is being said. Listen, also, for what is **not** said. Are the answers to your questions direct?

At the end of the interview, ask the applicant to get back to you if you think you might be interested in him or her. A call from them in a day or two will tell you much about how interested they are in coming to work for you. Don't commit yourself until you've had a chance to interview all applicants.

Check References

If the applicant is someone you are interested in, it is up to you whether or not to contact the references provided. Generally, it is a good idea to get in touch with at least one.

The key question in talking to a former employer is "Would you hire this individual again?"

Many firms and former employers will give a good reference to a former employee even though their work was not always satisfactory. To avoid this, you might ask a number of specific questions, such as: Was the employee punctual? Did they take their training seriously? Were they often corrected on the same types of mistakes? Did they follow instructions well? Did they need constant supervision or could they be left to do their work alone? Were they overly social at work? Was there ever any type of problem with this employee? A 20-minute chat with a former boss should give you all the information you need to know.

Make The Offer

Once you've made up your mind, call the candidate you've selected and offer the job. Be specific about the job, how much the pay will be, and when they will start.

You can follow-up in writing to confirm the offer if you want. This usually isn't necessary for clerical positions.

You should notify all other candidates someone else was selected for the job. A letter is okay here. Don't go into why the applicant was not selected. Don't send out these letters until the applicant you want has accepted. If your offer is rejected, you'll have to extend it to the second-best applicant.

A rejection like the following can be used:

> Dear   :
>
> Thank you for applying with (Company Name) for the job of   . We have now filled that position but will keep your application on file.
>
> Again, thank you.
>
> Sincerely,

TRAINING

Employee training is an on-going process. People are always learning something new at their jobs. The training may not always be seen, but it's there. Quite often it can take the form of what an employee learns sitting at a desk, talking with a customer, or working in the plant.

MACK'S GARAGE
PAINT
BUICK
FORD
CHEVROLET
DATSUN

Before you can give training to an employee, you need to have a clear picture of what you want to accomplish.

Possible goals include:

- Orienting the new employees to their positions.
- Improving the performance of present employees.
- Retraining present employees for new responsibilities.

As a small businessperson, most of your training will be with new employees. For them, you'll need to devote some time to the company's history and background, products or services, and rules and regulations, along with the details of the job they will be doing.

The best way to do this is to give new employees any pamphlets, brochures, newsletters or articles you may have. These can be read and reviewed several times. If none are available, jot down a few ideas on paper, such as, "Joe's Truck Repair was started in 1979. We service approximately 50 trucks per week and specialize in complete engine overhauls..." to hand out.

If there is nothing in writing, set aside some time to discuss your business with the new employee. Encourage them to take notes and ask questions about anything that isn't clear.

Most training for small businesses will be on-the-job -- the employee will learn by doing.

Use the job description you wrote as a teaching outline, working your way down the list. Such things as telephone answering procedures are usually straightforward unless your system is complicated.

Job tasks may require more planning and extensive training. Are there unusual skills they need to develop? Safety hazards to be aware of? Special ways to handle materials or tools? Any production standards the new employee will have to maintain? These should all be spelled out clearly.

For unfamiliar tasks, demonstrate them the first time yourself. Give your new employee a chance to observe it slowly at first, then at the regular pace. Have them do it under your supervision. Later they can do it on their own.

If there are forms to be filled out, such as sales receipts or invoices, have a sample handy they can follow.

Be patient and offer encouragement.

New employees are usually a little nervous but want to do well. Being positive about what they do well will get them productive much faster.

Everyone makes mistakes. It's very important to call them to the attention of the person who did it as soon as possible. This feedback is what keeps things running smoothly. Since we all want to do things well and please the people we work for, constructive suggestions are usually well received. Show the mistake, what probably caused it and how it can be avoided in the future.

Repeated mistakes must be dealt with quickly. But you need to know what the problem really is to correct it properly. Is the employee not suited to the job, or were they inadequately trained?

Your training should also include any standing policies or practices employees are expected to follow. Be sure they are understood. Go over each item individually and answer any questions at that time. The policies below are common; you may think of several others for your particular business.

1. Product and/or Service Knowledge

Your employees, especially those involved with the selling or promotion of your product or service, should know as much as possible about your business.

Every new employee should be given complete training on all your products and services. Keep in mind there may be a great deal of material to absorb in a very short amount of time. It would be a good idea for you to say, "I realize this is a lot of information. Why don't you take a few days to look it over, then ask me any questions you come up with." If practical, include new employees in any meetings or business calls that might help them become familiar with your company.

2. Pricing Policy

This can also be included in your product and service policies. Instruct your employees on all pricing policies, including discounts, sales, and large orders.

3. Working with Customers

Every small business owner has his own ideas and policies on how customers are to be treated. If it's your policy that any customer in your store should be approached within two minutes after arriving, make sure your employees know. If certain customers are allowed to write checks without having credit checked, make sure your new employees know who these customers are. If cash refunds are not given for merchandise, that policy should be clearly understood before an employee starts work.

Many companies have a "breaking-in" period where new employees work with experienced ones. Often, close supervision and observation are the best ways to present your policies and rules.

6. How to Work with Co-Workers

Every week, there is at least one letter in Ann Landers' column about problems between co-workers. One employee whistles constantly at his desk, another wears too much perfume, another gossips, another chain smokes, another steals typewriter ribbons, etc. It seems there is an endless list of problems people have when working with each other.

Of course, you want your employees to get along, but there isn't any set of rules to guarantee this. What you **can** do is have certain guidelines for employees to follow.

For example, you may want a company rule forbidding any employee from going through another employee's desk. Or a rule dividing your office into smoking/no smoking areas. Maybe you want to state any employee suspecting another employee of wrong-doing is expected to tell you.

You will be the best judge of what rules and policies are necessary for your business. And it's very important to put them in writing, and up-date them regularly to include "sensitive" subjects as they occur. The best rule might be an "open door" policy which allows employees to come to you with any problems or suggestions they have.

Rules And Regulations

Every business has its own set of rules and regulations. Rules may be as simple as making the coffee in the morning and shutting off the lights at night, or as structured as a 3-ring binder filled with them. Generally, it is better to have your business rules and regulations in writing to avoid misunderstandings and to answer questions.

Each new employee should be given a copy to keep and review. Your manual may not include a section on every topic below, but you should give some thought to each to decide which you do want.

Your policy manual could be structured to include the topics we have outlined below:

I. Employment Policy
   Probationary Period
   Performance Reviews
   Grounds for Termination

II. Attendance
   Absences
   Sick Time/Disability
   Leaves of Absence

III. Wages
   Time Cards
   Work Schedules
   Overtime
   Pay Periods
   Salary Reviews
   Advance Wages
   Travel and Other Work Expenses

IV. Benefits
   Insurance
   Paid Holidays
   Vacation
   Personal Days

V. Professional Growth
   Professional Memberships
   Courses/Seminars/Conventions

VI. Office
   Confidentiality
   Dress Code
   Hygiene
   Smoking
   Parking
   Meals
   Breaks
   Personal Phone Calls
   Housekeeping

DISCIPLINE

No one enjoys disciplining employees, but it is sometimes a necessary part of being a supervisor or manager. Here is how you should handle a disciplinary problem:

- Tell the employee exactly what they are doing wrong.
- Explain how this adversely affects your business.
- Tell them what you want them to do.
- Offer them some constructive suggestions on how to improve.

Agree on a deadline by which the improvement should be made.

Now, before going into detail on the above, it is important to keep in mind that there is also a proper way to discipline. Here are some tips:

1. Never discipline an employee in front of other employees.

2. Try not to lose your temper. Do not raise your voice.

3. Discipline only when the mistake merits it. If you are constantly criticizing, your employees will soon lose their motivation for doing a good job.

When an employee makes a mistake that cannot be overlooked, set aside some time to discuss it. Make arrangements not to be disturbed. Do this in a discreet manner so other employees are not aware the employee is being disciplined.

Detail the mistake. You might start by saying: "Joan, the report you turned in last Tuesday had several errors in it. You had already left for the day and Mary had to retype it so it could go out on time."

Allow Joan to explain why it happened and decide if what she says is a valid explanation. If so, and this is the first time it has happened, simply calling it to her attention should be adequate.

However, if Joan has made a number of mistakes like this in the past, you will have to decide how to handle it. Point out that the mistakes are putting an extra burden on other employees and wasting valuable time.

You might say: "Joan, I'm going to be watching your work very carefully for the next few weeks. We can't afford any more mistakes like this. If there are any, I'm afraid I'll have to reevaluate your position with the company."

If there are any extenuating circumstances (the employee has personal problems or too much work to handle), take that into consideration. Perhaps the employee needs some time off or finds the work too difficult to handle. This is what you want to find out before deciding what type of action you are going to take.

If the employee has been accused of something by another employee, make sure you have all the facts before making a judgement.

Remember, your employees are human, and entitled to make mistakes. Discipline should never be harsh or unfair, and should always be well thought out beforehand.

MOTIVATION AND REWARD

A very important part of your job as a small business owner will be motivating and rewarding your employees. Your employees must **want** to do a good job; they should be rewarded when they do.

This doesn't always come in the form of a bonus or gift, although that is a good way to show appreciation. It can be as simple as saying: "I noticed the good job you did on making that sale to Mrs. Goodwin. I'm really proud of you." Or, "I saw the repair job you did on Joe's motor. It turned out very, very well and I know that you did it quickly. You really seem to have a good understanding of engines." Or, "How did your first day of work go? Let me tell you, I'm very pleased with the way you dress and the pleasant manner you have with all our clients."

This type of comment lets employees know you really have been paying attention and you do appreciate their work. And when you make employees feel good about themselves, they will continue to put their best effort into the job.

If you can afford to, you might include bonuses in the paychecks at 3- or 6-month intervals. It doesn't have to be a lot of money, but rather something to show the employee his hard work has paid off.

It's your goal to establish a good working environment, opportunities for growth and a system of recognition and rewards.

Remuneration

As a small business owner, it is up to you to decide how you want employees to be paid: hourly, weekly, semi-monthly or monthly.

Generally, employees working part-time or odd shifts should be paid by the hour. The advantage is that you pay employees only for the hours they work, which can vary depending on the needs of your business.

Usually, most employees appreciate a weekly or semi-monthly check because it is easier to balance their own finances this way. It can be advantageous for your planning as well. Monthly paychecks take a larger part of your finances at one time.

No matter how you decide to pay your employees, the important thing is that they understand how and when they will be paid. Check with the state employment agency to make sure you are deducting the proper amounts for State and Federal taxes, Social Security, unemployment compensation, worker's compensation, temporary disability insurance, and any other deductions.

COMMUNICATION: THE KEY TO MANAGING PEOPLE

Coordination of activities depends upon the careful selection of people and equipment as well as effective communication. In fact, there is nothing that will foul up coordination faster than poor communication. It is the supervisor's responsibility to develop plans, and to communicate them to the employees. This means, of course, that he assigns tasks. But it also means that he monitors the progress of the employees as they complete those tasks. If the supervisor is unclear with his instructions or about how to implement tasks, problems will occur and progress will be slowed. Communicating well involves:

1. **Speaking distinctly.** Some people slur their words. Think for a moment of the artist who tries very hard to keep his paintings from becoming smeared. The string of sounds which emerges from the speaker shouldn't be piled up in a heap. Perhaps it's just a matter of remembering to slow down.

2. **Writing clearly.** Sometimes the written word carries more weight than the spoken word. This is particularly true over long periods of time since we tend to forget some of the things we've said. It pays to find a few extra moments to select words you know will be understood. Get into the habit of editing all notes which leave your office. Keep a dictionary nearby. Use short sentences. Perhaps a follow-up phone call or visit will underscore the precise meaning of your written message.

3. **Writing neatly.** Often it's much easier to write out a memo by hand than to use a typewriter. If that's the case, take pity on the one who has to read your note. I've often wondered about the poorly written prescriptions that are being filled at the local pharmacy. How many of those prescriptions do you suppose have been filled improperly? In that kind of situation it might be a matter of life and death. Let's hope not. The message here to all of us is that sloppy writing can be very expensive.

4. **Being specific with directions.** Don't beat around the bush. State precisely what your needs are and then help your subordinates to get started with their tasks.

5. **Being timely with communications.** How often have we heard someone say: "Well, nobody told **me** about it"? In general, people will be fair and cooperative if they know what is expected of them. All they need is some lead time to prepare. Surprise messages, especially important messages, such as those which affect salary and vacation, are apt to rankle people, and rightly so.

6. **Being consistent with information.** Planning your directives carefully so your employees will learn to depend upon you will increase their confidence and keep costs low. Get into the practice of not changing business plans for casual reasons. Changing plans halfway into a major project can be devastating. **For a small company it is imperative that big mistakes not occur.**

7. **Listening carefully to feedback from employees.** Sometimes employees are too timid to discuss a problem with their supervisor. As a result, it might be necessary for you to initiate a discussion to find out how the employee feels about his work. You can bet that the employee has opinions. You will gain his respect if you regularly ask how things are going. This might prevent a serious problem from developing.

8. **Communicating regularly.** Try very hard to be available to your employees. Find the time to visit with them on a regular basis. They must know that their concerns are being addressed. If you have their confidence, they will inform you when a problem occurs. Very significant, too, is their need to be reassured that they are keeping on task satisfactorily. A word of encouragement, a pat on the back, a simple compliment -- these are indicators that you are pleased with their work.

Communicating effectively is a fundamental part of being well organized. Most people probably sense that this is true, but are sometimes confused by the English language. After all, many of the words in our language have more than one meaning. We're all used to hearing junior high and high school students say: "he goes" instead of "he says," aren't we? If you say, "she's neat," you might mean: 1) she's a wonderful person; 2) she's exciting; 3) she's very clean in her work; or 4) she's well-dressed.

Perhaps the easiest way to overcome this difficulty is to give an example after your statement: "She's neat." "See how trim she is in that summer dress."

Another problem stems from the use of "insider" language, particularly in highly technical fields. All too often, people assume that their own special vocabulary is understood by others around them. People must be given a chance to learn special vocabularies.

Of course, the bottom line in effective communications is the need for **clarity**. If you are delivering a speech or sales pitch and your delivery is too fast, you can't expect your audience to listen faster. They will understand you only if you set a reasonable pace. Temper your voice with pleasant sounds, emphasize key words, and provide illustrations.

What Do You Want Me To Do?

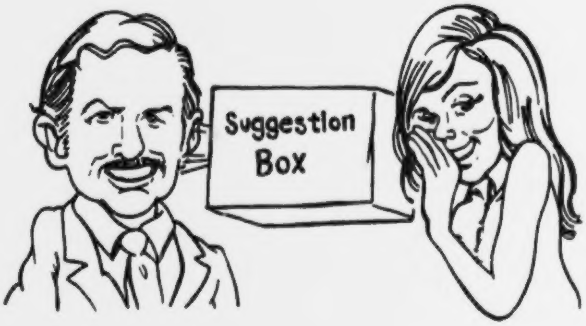
The most effective employees are those who are able to place what they are learning into a context. For example, a manager might say: "Jane, I want you to get on the phone and sell this set of books. Here's the list of phone numbers." How many books do you suppose Jane will sell with such a brief explanation? Not many.

First of all, the problem was not presented well. The manager didn't bother to cover a tried and true sales pitch with Jane. No training time and practice time were provided either. Also, Jane would apparently have to learn the hard way who her customers are.

For the sake of argument, let's suppose that the customers are retired couples who are living on fixed incomes. How eager will they be to buy a book when an amateurish pitch is made over the phone? Probably not too eager. They might even be provoked at Jane for calling. However difficult some sales might appear, they can be enhanced with the proper sales perspective. Give the employee a fighting chance. Make sure he understands how valuable the products are. Give him a chance to "believe" in the product. Then help him study how such a product should be presented to the public. Have him review the sales pitch and procedures of the sale. Top this off with an understanding of who the audience is, and how that audience is apt to respond, and you'll have a good part of the required perspective.

Hearing From Your Employees

Ideally, employees should be informed about the company's plans; about its marketing strategy; its anticipated growth; and its revenues. But the wise manager will want to know how all of this is perceived by the employees, and how it's being accepted by them. The manager should make it a priority of his business to find out how the employees like what they are doing. He might even ask them to help devise a few plans. Today's managers are finding out that the higher the degree of interaction between management and employees, the greater the likelihood for producing quality products. Commitment to quality tends to pick up when one sees his own credibility is on the line. Even if this kind of scheme is implemented, the manager must be alert to potential problems, especially if a "chain of command" supervision structure is in place. That system should not become so rigid that the efforts of the people in the trenches go unrecognized.



Telling Your Employees

Information about the company should be discussed with the employees on a regular basis. This is the manager's chance to put rumors to rest, to discuss plans, and to announce concerns. The employees want to know how well they are doing individually and how well the company is doing. A discussion of this type will reinforce their sense of security and help to keep the company's financial house tidy. Most employees are not interested in a detailed account of the cash flow, but would certainly welcome any news that suggests financial stability and an improved revenue picture. Just a few words will do. For example, at a general staff meeting the manager might say: "I've got some good news for you. Our sales so far this year are 15% ahead of last year's. And Tom tells me that a lot of the customers he calls on are excited about our new product line." The manager should be prepared to answer a few questions, too.

An attempt should be made, too, to let the employees in on long-range plans. This will give them an overall picture of the company's direction and will serve in some measure to outline their future with the company. Just discussing plans openly with the employees is an exercise that should win their trust. They will see the business is organized well and be less prone to upset when changes are announced. Consider taking the employees into your confidence before implementing a plan, especially a plan of some size. By asking for the opinions of the employees and taking the time to learn their concerns, you will be laying the foundation for participative management.

ANNOUNCING EVENTS

How to Announce Events

Keeping your employees informed is not just a matter of talking to them during a staff meeting, although this is very important, too. Most employers are sensitive to this need and will, at least, place notices on a bulletin board. Tacking up newspaper clippings (with the dates!) can reveal important business trends which your employees might not have noticed otherwise. A bulletin board is an excellent place to post special recognition announcements, too. All of us need to be recognized for our special contributions, and we appreciate learning about the special contributions of our co-workers. But additional aids might also prove useful. For example, a manager might consider printing a newsletter. It has to be printed regularly, say once a week or once every two weeks, in order to be current and applicable to the employees' perceived interests. But it provides a wide range of information options. It might list such items as: 1) births, deaths, retirements, and facts about new employees; 2) recreational events; 3) want ads; 4) promotions; and 5) business meetings or conventions. A newsletter can be as long or short as you want, but someone will have to take the time to prepare it.

WE'RE MOVING! YOUR DESK IS ON THE TRUCK!!

When to Announce Events

It is essential to announce events in time for employees to adapt to new situations. Many people actually cringe when they are informed so late they have little time to prepare for change. Change in today's fast-paced, technical world is the rule rather than the exception. So a note of caution is advised when dealing with new issues of importance. Allow enough lead time so the employees will be able to adjust. For instance, if an employee recognizes that his job is about to be phased out, he might select another career track to follow, and be able to take the kind of training which would support that career. It isn't change employees always fear, but not knowing about it.

PRINCIPLES OF MANAGERIAL LEADERSHIP

Leadership defined: The ability to direct associates in the completion of an assigned task.

Qualities of Leadership

Leadership appears to come in so many forms that it would be very difficult to list all of the characteristics which leaders have in common. However, Hodgetts, in his Management:Theory, Process, and Practice (p. 289), identifies several qualities which leaders often possess:

1. **Intelligence.** Leaders are bright enough to control managerial tasks.

2. **Maturity.** Leaders are emotionally stable, balanced, and have a broad base of experiences.

3. **Motivation.** Leaders are high-energy people who have the kind of drive it takes to succeed.

4. **Sensitivity in Human Relations.** Leaders do more than just "get along" with their co-workers. They have an appreciative word for work well done, and are able to stimulate cooperation.

THE MANAGER'S ROLE

The Manager Must Use Good Judgement

Finding the balance between the needs employees have and the production schedule is difficult for some managers. Some managers are so oriented toward production that they fail to support their employees adequately. When this happens, the employees do not feel they are part of a team, and they are not given a chance to succeed. If their opinions don't really matter, productivity will fall off. Sometimes this happens because of the manager's reluctance to assign tasks to others. Either he doesn't trust the employees or he feels like he can do the job faster and better himself. Perhaps, too, the manager works well with ideas, but can't work well with feelings and the implementation of ideas. But if the manager spends too much time in production, his business will suffer from a lack of management. He can spread himself too thin.

The best manager can be sincerely concerned about both employees and production. This calls for outstanding interaction skills. It is not enough to say that the employees should "work together." The manager must be genuinely concerned about the welfare of his employees. If the production goals are clear and rewards adequate, expectations for success should be high.

THERE ARE ALL KINDS OF MANAGERS. . .

The Domineering Manager

This kind of manager is going to dictate what happens in his business. He's more concerned about production than the needs of his employees, and will use threats and coercion to get what he wants. Consider the following case, for example. As soon as Barney Kruger entered the store, his employees knew something was up, and it was probably going to be a bad day. Kruger was frowning and angry about the pilfering of cup cakes and milk at his store, and he was determined to have it stopped immediately. Each employee was called in and told very directly that the situation had to improve immediately. Kruger also assured each employee that the next time he found out that someone had stolen, he'd fire that person on the spot. There are a number of interesting points about Barney Kruger: 1) He shows evidence of an overbearing personality. He's not the type to seek opinions from his employees. 2) He callously disregarded the feelings of his employees. Did **everyone** steal cup cakes and milk? And, 3) He let his anger override a better approach to solving a difficult problem.

The Team Manager

This kind of manager wants the employees to participate fully in the decision-making process. As an example, one can point to the case of Al Jordan, hospital laboratory manager, who was responsible for tests administered to premature infants.

There had been a severe problem with staff turnover. The patient load had been on the increase, and the doctors and nurses were complaining about the lack of support from the lab. Al wasted no time in arranging a staff meeting to find out how to make the lab situation better. He sought the opinions of his technicians, and learned that the blood samples which came to the lab were too often marked with an emergency label: **stat, red tape,** or sometimes a **verbal directive,** such as "Do it now!" Considering the pressure this put his staff under, Al decided to discuss the matter with his boss. This meeting resulted in greater sensitivity on the part of the doctors and nurses and better organization in the lab. Al Jordan had not isolated himself from his staff. He was able to act promptly to correct a critical situation. In the process, he kept the confidence of his technicians. He knew the value of maintaining good interpersonal relationships.

The Survival Manager

This kind of manager is seldom ahead of the game. He seems unable to meet production deadlines. Take the case of Brian Brimspill. He really enjoyed working with Sally and George, but he knew they couldn't possibly complete their drafting project by Friday. He didn't want to risk hurting their feelings about the deadline; so he decided to ask his supervisor for a one-week extension. Brian was very surprised when his supervisor said: "Sorry, Brian, no deal!" Brian seemed unaware that employees expect -- even desire -- to have a firm boss. Had he been firm with his staff, chances are they would have found him dependable, and confidence among the team players would have been high. Brian is the kind of manager who places so much stress on maintaining good, interpersonal relationships that he risks losing a project and, perhaps, his job.

The above examples of managerial styles suggest that good managers are highly motivated and interested in the welfare of their employees. On the one hand, this means that the work place should be stable and as free of uncertainties as possible. On the other hand, the manager should expect his employees to perform well. Work well done will bring rewards for all.

HOW TO HANDLE THE PROBLEM EMPLOYEE

Maintaining high standards of productivity in the workplace is sometimes complicated by an interpersonal problem. If you detect that an argument is beginning to interfere with an employee's performance, you must make every effort to discover the reasons for the argument, and find a solution.

Identify Causes of Concern

1. Redefine the job
2. Ask the employee's opinion about the problem
3. Be constructive with criticism

Keep the discussion focused on productive issues.

1. Decide how the situation will be improved
2. Coach and counsel the employee
3. Monitor his progress

HOW TO FIRE AN EMPLOYEE

There can be many reasons for firing an employee. Some are out of the control of both you and the employee. Business may be declining and you may be forced for financial reasons to decrease your work force. Or, you may decide that you've got extra help on your hands. Maybe your business is expanding in more directions than you had envisioned and you need a person with different kinds of skills. Other times, ongoing attitude or performance problems may create a situation that forces you to terminate an employee.

If the situation is out of your control, it will probably be easier for you to fire the person. If he has been a regular employee, he may be eligible to receive unemployment compensation, which will ease the burden of transition. Perhaps you have arranged for some kind of severance pay. Emotionally difficult as these situations may be, they are not as tricky as when you have someone who is not working out because of inadequate behavior or performance. These situations require proof on your part of why you are firing the person. And this means you must document your reasons carefully and fairly. Before you go the route of termination, think about whether the employee might be shifted to another position or department. Maybe there is another job in your organization to which he is more suited.

Difficult as it is to fire someone, with the right approach, it can be turned into an experience that helps both parties grow and learn about themselves.

The Importance of Documentation

It's not easy to fire a person, but it's sometimes necessary. Normally such drastic action occurs only after all other avenues have been tried. To go this route, you will need proof, and the time to start gathering it is now. The proof you need must be documented on a regular basis.

Documentation is simply a record of all communications with the employee about his or her performance. You should document your regular performance evaluation meetings with all your employees as a matter of course, but doing this takes on an urgency when you have an employee you may have to terminate.

In many states, it's the law that an employee must be given written warnings before termination can take place. These written warnings will require **facts, facts, facts,** to back them up. This is to protect you as much as to protect the employee, as it can help prevent a possible suit for discrimination or injury.

The technique to use when you document is to give as many facts as possible. This means recording numbers, measureable data, quotations, or other non-emotional, **objective** facts about the employee. Here are some examples.

WRONG: "Susan acted surly and yelled at a customer. I talked to her about it."

RIGHT: "Date: x/x/8x

"Susan was talking on the phone to a customer. The customer was angry because an important order had been delayed. Susan talked to him for 10 minutes explaining the slowness but the customer remained angry. Susan hung up on the customer and told him to take his business elsewhere. I discussed the incident afterwards with her and said that even when the customer is being unreasonable, he must be treated with respect."

WRONG: "I noticed that we have been coming up short on the daily cash count since Jim started working. I warned him about it."

RIGHT: "Date: x/x/8x

"In the month period before Jim started working here, we averaged a minus $5.55 on the cash box at the end of the day. Since he started working here, the daily count is minus $39.00. Jim is consistently late and disappears during working hours. I told him that we have been noticing shortages since he began working and that he must improve his daily counts, come to work on time, and remain at his register."

You should reread what you have written to make sure it makes sense, and then ask yourself if someone reading the report six months from now will understand it. In summary, after a negative incident with an employee, you should record:

- the date
- who was involved
- what happened
- what you did/said
- what employee did/said

This information will provide you with a record of any incidents that occur. If a series of such incidents occur, you may be forced to terminate the employee. It can be too late three months down the road to realize that what you thought were isolated incidents have become a pattern. If you document regularly, you will have the proof if you need it. However, it is impossible to reconstruct these scenes separately after the fact.

If incidents start occuring with regularity, it is time to have a formal counseling or performance appraisal session. You will be taking on a more active role, instead of reacting to behavior by the employee. During counseling sessions, concentrate your discussion on these points:

1. Describe how the employee's problems are perceived. Be specific about the details of his decline in productivity.

2. Describe what the employee's decline in productivity means to the company. Help the employee understand his situation by supplying as much perspective as possible. Young employees, in particular, may not appreciate the importance of doing a good job. You may be the person to mold them into mature productive adults.

3. Remind the employee of his responsibility by asking a challenging question like this: "What do you think you can do to improve this situation?"

4. Ask what the employee thinks you can do to help him. There may be a situation in the employee's personal life that is a factor in his behavior. If this is so, you may be able to work out a temporary arrangement if the situation is on the way to solution.

5. Discuss the consequences which will result from unimproved performance.

6. Arrange a monitoring schedule. For example, "I expect to see you in my office every Tuesday at 3:00 pm for a counseling session. Remember, too, I plan to look over your shoulder while you're working."

After a counseling session or performance appraisal, document the following points:

- the date
- items discussed
- employee's remarks
- goals agreed upon
- steps for attaining goals

- timetable for goals
- employee's full name

Remember that the information you document is usually available for the employee's inspection (by law). So make extra sure to document clearly, concisely, and fairly.

This is a good time to note the importance of regular performance reviews. These are especially critical for new (and young) employees. For such employees, reviews every three months for the first year can be critical in shaping and guiding their growth. You provide a structured forum for communication and may catch minor problems before they develop into something major.

The Dismissal

When you have tried reason, encouragement, and a formal warning with no success, you may have no recourse but to fire an employee. The meeting where you dismiss the employee should be conducted as fairly as possible and should be focused on the causes of dissatisfaction. Call the person in, probably toward the end of the day at the end of the week, outline his performance history and your expectations. There is room in this session, too, for positive points you've noticed about the person. However, be prepared and be firm. Typically, managers might say: "I'm sorry, it's not working out," or "We've decided to release you," or, perhaps, "We feel your skills might be put to better use elsewhere." However, the employee is owed a reasonable explanation about why the dismissal action has been taken.

Performance Appraisals

Periodically, you should review the performance of all your employees and the work they are doing. Generally, it is a good idea to do this after the first month for a new employee, and every six months after that.

In a performance appraisal, you should set aside about an hour to spend with the employee. Go over their job description and let them know how you think they are doing in each category. This is also a time for you to ask the employee if they are having any problems with the job, or if they have any suggestions.

Show the employee what you have written and ask if they agree. It is a good idea to have all employees sign their performance appraisal for your records. Signature does not imply agreement, only that they've read it.

It is a good idea to keep individual files on all employees to refer to. The file should contain all personnel-related information, including performance appraisals, written notices of discipline, promotions, and salary histories.

Maintaining these employee files will help protect you if an employee must be discharged for any reason. If the discharged employee files for unemployment compensation, you will have to document the reason. They will also help support you if you're accused of breaking anti-discrimination rules and regulations.

There have been an increasing number of suits in recent years alleging discrimination in the treatment of employees. Many cases had merit, some didn't.

When disciplining your employees, be sure to document the events leading up to the discipline. Include meeting times, dates, places, interview notes with the employee in question, as well as others. Note action taken. Keep all of this on file, in case you are ever called into court to defend your actions. Being right and being able to explain it can be worlds apart.

The best protection you can take is a written letter to the employee detailing the events leading up to it, and giving them notice further occurrences will be cause for dismissal. The letter should also indicate specifically how the employee can be reinstated. Give a copy to them. Have them sign and date a copy for your file.

SUMMARY

One of the most important aspects of running a small business is having good employees. Only with good employees can your business grow and prosper. And good employees make for a pleasant working situation.

In this chapter, we have learned:

1. Employees are the life blood of any business; they make it grow.

2. Employees with a good attitude about their jobs and company can help make customers happy and expand your business.

3. An unhappy employee with a bad attitude will hurt your business.

4. There are a number of places to locate potential employees.

5. The job interview is probably the most important part of hiring an employee.

6. Federal and state regulations may affect your hiring, training and termination policies.

7. There are a number of different factors to consider when training a new employee.

8. A job description is important to have when hiring and training new employees.

9. The manner in which you discipline an employee will determine how effective the discipline is.

10. Employees are motivated by praise and rewards for a good job.

11. It is a good idea to give your employees periodic performance appraisals.

12. You should keep a file containing personnel related information for each employee.

APPLICATION FOR EMPLOYMENT

(PRE-EMPLOYMENT QUESTIONNAIRE) (AN EQUAL OPPORTUNITY EMPLOYER)

PERSONAL INFORMATION

DATE

NAME (LAST / FIRST / MIDDLE)

SOCIAL SECURITY NUMBER

PRESENT ADDRESS (STREET / CITY / STATE)

PERMANENT ADDRESS (STREET / CITY / STATE)

PHONE NO.

ARE YOU 18 YEARS OR OLDER Yes ☐ No ☐

SPECIAL QUESTIONS

DO NOT ANSWER **ANY** OF THE QUESTIONS IN THIS FRAMED AREA UNLESS THE EMPLOYER HAS **CHECKED A BOX PRECEDING** A QUESTION, THEREBY INDICATING THAT THE INFORMATION IS REQUIRED FOR A BONA FIDE OCCUPATIONAL QUALIFICATION, OR DICTATED BY NATIONAL SECURITY LAWS, OR IS NEEDED FOR OTHER LEGALLY PERMISSIBLE REASONS.

☐ Height ________ feet ________ inches

☐ Citizen of U.S. ____ Yes ____ No

☐ Weight ________ lbs.

☐ Date of Birth* ____________

☐ What Foreign Languages do you speak fluently? ____________ Read ________ Write ________

☐ ____

*The Age Discrimination in Employment Act of 1967 prohibits discrimination on the basis of age with respect to individuals who are at least 40 but less than 70 years of age.

EMPLOYMENT DESIRED

POSITION

DATE YOU CAN START

SALARY DESIRED

ARE YOU EMPLOYED NOW?

IF SO MAY WE INQUIRE OF YOUR PRESENT EMPLOYER?

EVER APPLIED TO THIS COMPANY BEFORE?

WHERE?

WHEN?

EDUCATION	NAME AND LOCATION OF SCHOOL	*NO. OF YEARS ATTENDED	*DID YOU GRADUATE?	SUBJECTS STUDIED
GRAMMAR SCHOOL				
HIGH SCHOOL				
COLLEGE				
TRADE, BUSINESS OR CORRESPONDENCE SCHOOL				

*The Age Discrimination in Employment Act of 1967 prohibits discrimination on the basis of age with respect to individuals who are at least 40 but less than 70 years of age.

GENERAL

SUBJECTS OF SPECIAL STUDY OR RESEARCH WORK

U.S. MILITARY OR NAVAL SERVICE

RANK

PRESENT MEMBERSHIP IN NATIONAL GUARD OR RESERVES

LAST

FIRST

MIDDLE

TOPS FORM 3285 (REVISED)

(CONTINUED ON OTHER SIDE)

LITHO IN U.S.A.

FORMER EMPLOYERS (LIST BELOW LAST FOUR EMPLOYERS, STARTING WITH LAST ONE FIRST).

DATE MONTH AND YEAR	NAME AND ADDRESS OF EMPLOYER	SALARY	POSITION	REASON FOR LEAVING
FROM				
TO				
FROM				
TO				
FROM				
TO				
FROM				
TO				

REFERENCES: GIVE THE NAMES OF THREE PERSONS NOT RELATED TO YOU, WHOM YOU HAVE KNOWN AT LEAST ONE YEAR.

NAME	ADDRESS	BUSINESS	YEARS ACQUAINTED
1			
2			
3			

PHYSICAL RECORD:

DO YOU HAVE ANY PHYSICAL LIMITATIONS THAT PRECLUDE YOU FROM PERFORMING ANY WORK FOR WHICH YOU ARE BEING CONSIDERED? ☐ Yes ☐ No

PLEASE DESCRIBE:

IN CASE OF EMERGENCY NOTIFY

NAME ADDRESS PHONE NO

"I CERTIFY THAT THE FACTS CONTAINED IN THIS APPLICATION ARE TRUE AND COMPLETE TO THE BEST OF MY KNOWLEDGE AND UNDERSTAND THAT, IF EMPLOYED, FALSIFIED STATEMENTS ON THIS APPLICATION SHALL BE GROUNDS FOR DISMISSAL.

I AUTHORIZE INVESTIGATION OF ALL STATEMENTS CONTAINED HEREIN AND THE REFERENCES LISTED ABOVE TO GIVE YOU ANY AND ALL INFORMATION CONCERNING MY PREVIOUS EMPLOYMENT AND ANY PERTINENT INFORMATION THEY MAY HAVE, PERSONAL OR OTHERWISE, AND RELEASE ALL PARTIES FROM ALL LIABILITY FOR ANY DAMAGE THAT MAY RESULT FROM FURNISHING SAME TO YOU.

I UNDERSTAND AND AGREE THAT, IF HIRED, MY EMPLOYMENT IS FOR NO DEFINITE PERIOD AND MAY, REGARDLESS OF THE DATE OF PAYMENT OF MY WAGES AND SALARY, BE TERMINATED AT ANY TIME WITHOUT ANY PRIOR NOTICE."

DATE SIGNATURE

DO NOT WRITE BELOW THIS LINE

INTERVIEWED BY DATE

HIRED: ☐ Yes ☐ No POSITION DEPT.

SALARY/WAGE DATE REPORTING TO WORK

APPROVED: 1. 2. 3.

EMPLOYMENT MANAGER DEPT HEAD GENERAL MANAGER

This form has been designed to strictly comply with State and Federal fair employment practice laws prohibiting employment discrimination. This Application for Employment Form is sold for general use throughout the United States. TOPS assumes no responsibility for the inclusion in said form of any questions which, when asked by the Employer of the Job Applicant, may violate State and/or Federal Law.

CHAPTER 18

Your business plan

Perhaps the most important document of your business career

As a blossoming entrepreneur, you are part of a gigantic wave that's growing in size and sweeping across America. We are slowly reverting back to pioneer times when cottage industry and small businesses were the backbone of our nation. Indeed, many business experts predict that in the future 95% of all new innovations and changes will come from people like you and me in the small business arena.

While the corporate giants continue to grow, merging and swallowing each other, thousands of energetic, talented people are spun off. Thousands more, who have never been part of the anonymous, faceless existence within a big corporation stand on the sidelines with heads full of ideas, wondering if NOW is the time to start up their own businesses.

Is this you? Well, take heart! You have plenty of company. Last year there were more than 600,000 new incorporations in the United States. And there were at least that many new sole proprietorships and partnerships.

But sadly, about 80% of those start-ups will unnecessarily fall by the wayside within a few years.

YOU DO NOT HAVE TO BE ONE OF THEM!

606

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What can you do to keep **your** bubble from bursting? Perhaps the best preventive medicine is expressed in a single word...PLANNING.

This chapter deals with two vital areas of planning:

The Business Plan

Operational Planning

THE BUSINESS PLAN

Chapter 5 guided you through the procedure for a loan proposal. While this procedure may be all you need to get a loan from a bank, it may not be adequate when trying to raise **venture capital** from other sources. On the other hand, a complete business plan which **includes** a loan proposal is a document which will not only be a powerful money-raising tool, but it will serve as a road map during the first vital years of your new venture.

A properly developed business plan provides more than mere numbers on paper. It serves three main functions:

1. A communications tool which conveys your ideas, research and plans to others.

2. A basis on which to manage your business.

3. A yardstick by which you may measure progress and evaluate changes.

If these functions don't convince you that you need a business plan, we have a suggestion: Ask any businessperson who has failed whether or not they had prepared a business plan ahead of time.

Sure, it takes time, effort and maybe even money to prepare a document like this. But if it can make the difference between success and failure, it's worth it. So, let's get started.

How to Prepare Your Business Plan

First, decide right now that your business plan will be neatly typed and well-written. Its final appearance will have a significant effect on others who read it. Therefore, if you are weak in the areas of writing and typewriting, hire someone to help with the final preparation.

Your plan is a reflection of you and your ability to organize, to think, to manage and to communicate. In the eyes of a venture capitalist - one who may invest his money in your new enterprise - it demonstrates on paper your potential ability to compete in the business arena.

Because no two business plans are alike, we prefer not to give you a model plan. Instead, we will suggest the essential elements of a properly prepared business plan.

1. **Your Business Concept.** This is your first - and most important page. It sets the tone for what follows. It can be the "make-or-break" page in the eyes of your banker or a venture capitalist. This page presents a summary of your business idea. It tells why you think it will work, how it fits into the marketplace, what the future should hold. All based on your best research, of course.

2. **Your Product or Service.** You will need to provide a complete description of what you plan to sell or rent. If possible, include an 8 x 10 photograph. Emphasize the basic product or service that will provide the bulk of your income. Explain advantages and benefits and anything about your products or services that will help "sell" your business concept to a complete stranger. If your product is still on the drawing board, explain when it will be available, including any test data you have.

3. **Your Market.** Explain the big picture first. What is the total universe of your market? Is the industry growing or declining? Is anything happening now or expected to happen in the future that will impact your business? Who are your competitors? How successful are they, and why? Do they have any weaknesses? If so, will your business fill a need created by their weakness? Who will your customers be? Why will they buy your product or service?

4. **Your Marketing Strategy.** Describe how your product or service will be sold. Include pricing strategy, estimated sales and market share for each of the first three years. Add your advertising and public relations plans, plus your service and warranty policies.

5. **Your Production Plans.** Cover all the specifics, such as how, where and by whom your product will be produced. What is the raw material? Is it readily available? What is the manufacturing process? What is your anticipated rate of production? Will you use union or non-union labor?

6. **Your Personnel.** Will yours be a sole proprietorship? A partnership? Corporation? If so, include an organizational chart. How many people are involved, and what are their skills? How well are they qualified? At what points in time will you add personnel? If you're running a one-man show, explain convincingly how you have the necessary skills and talent to achieve your goals.

7. **Your Financial Plans.** If yours is a new business, you won't have the benefit of past history. As a bare minimum, you will need a personal financial statement. If your business is already established, include a financial statement for the business. Demonstrate how you plan to elevate existing figures from point A to point B. Ideally, you will be totally familiar with all of the financial details of your business, and will be able to answer -- line-by-line -- how you arrived at each figure.

If raising venture capital is the primary purpose of your plan, you can readily understand its importance to you. Treat it accordingly. It **must** be well organized, easy to read, sound, logical and factual. Investors must see the direct relationship between **future growth** and past **knowledge** and **experience**. The "blossoms" of tomorrow will be the natural fulfillment of the "seeds" you plant today.

Your business plan should not be treated as a sacred cow. You will probably discover its need for fine-tuning at brief intervals at first. And, certainly, if your initial requests for capital are rejected, you should take another look at it. The idea is to make this document serve **your** needs.

If you have done your homework and the result is an idea that has merit beyond the "better mousetrap" stage, there is a good chance that someone or some group will want to support you financially. Once you sell your idea, it will be up to you to plan well for growth.

OPERATIONAL PLANNING

As you consider the time and energy that must go into the process of planning, remember the old adage: "businesses don't plan to fail, they just fail to plan."

Bob Mallory is like a lot of us: he intuitively knows what he wants to accomplish in his county fair concession business. If you ask him, he can tell to the fraction of a cent how much his materials cost and where he is scheduled to sell throughout the summer months. He's an interesting guy to watch because he knows where he is going.

Bob Mallory is different from many of us, though, because he knows how to **plan**. He has been able to translate his intuition into action and results because of good planning.

You already know that the small business owner must do several types of planning; you also know how important it is. There is probably no need to insult your intelligence with more horror stories of lost opportunities, wrecked home lives, and businesses gone bad. You already intuitively know the consequences of poor planning, incomplete planning, and no planning.

How many of us honestly know more than a small handful of people who really know how to plan well? An even smaller number actually are able to follow their plan.

Good intentions are only a part of the formula; the rest is knowing **what** to plan, **when** to plan, and **how** to plan. In this section, you will learn the basics of good planning. If you have the personal discipline, and this chapter adds the information, you will be prepared to PLAN FOR SUCCESS!

What Is Planning, Anyway?

Our definition of planning is simple: **setting objectives** with the specific **time** and **resources needed** to hit the objectives. No matter what type of planning you are trying to do, you will need to know this information.

OBJECTIVE = TIME + RESOURCES

(or)

OBJECTIVE = WHEN + HOW + WHO

This 3-part formula is useful because it organizes your thinking. You may know one or two parts, but don't go charging off until you can fill out all the parts.

An **objective** is nothing more than what you want to do. It is different from a goal, which is much more comprehensive; usually, a series of objectives is needed to accomplish a goal. An objective is quite specific, and probably is the "how" of a larger plan. Here's how objectives and goals fit into plans.

Anatomy of a Plan

$$\left.\begin{array}{l}\text{OBJECTIVE \#1}\\ \\ \text{OBJECTIVE \#2}\\ \\ \text{OBJECTIVE \#3}\end{array}\right\} = \text{GOAL}$$

The **time** element sets a limit on how long you are giving yourself to do the job.

The **resources** you will need to do the job should be spelled out, too. Who is going to do it? Who will follow up? How will you know when the job is completed?

The complete plan, then, includes the following components:

- The **priority** ranking of each action you plan. This is your estimate of how important each action will be toward accomplishing an objective.

- The **action** that you are going to take, usually in verb form. The action structures what you are actually going to "do". Several separate tasks may be required to meet an objective, and each task in your plan should relate specifically to an objective.

- **When** you are going to do it. The closer you can get to a specific, believable date on the calendar, the better.

- **Who** is going to check to see that it is being done and done right? Who is the person responsible for the action?

- The **results** you achieved; your accomplishment in terms of what the action was intended to do. Of course, these entries on your planning worksheet are made at a later date as results are achieved.

- A **comments** section can include other pertinent details such as reasons for delays, how actions or results will affect other people, how results will be measured, etc.

All of these elements have been combined on the following **PLANNING WORKSHEET**. You should make a lot of copies of this worksheet, and use it whenever you want to plan.

612

DATE: ______________

PLANNING WORKSHEET

GOAL:

OBJECTIVES:
1.
2.
3.
4.

Priority	Action (Tasks)	Due Date	Responsible Person	Results

Comments

This is what planning is all about; it is NOT a wish list of vague statements like, "My goal is to be rich." The proper way to say it would be: "I want to make a million dollars by my 45th birthday by selling $17,000 worth of merchandise every month. My monthly sales figures will indicate (measure) my progress." Obviously, you don't pull statements like these out of the air or make them up casually. You have to back them up with some good thinking.

What Kinds of Planning Do You Need?

Now that you know what planning is and is not, you can decide how much you're going to have to do in order to be successful. Try to think of your business as a series of different plans that work together; only the very simplest businesses can do everything with one plan.

Let's think about the purposes for these plans. You will probably need a plan to:

- finance your business
- sell your product or service
  achieve your personal financial objectives
- run the day-to-day operations
- get specific customer orders filled
- setting goals for the organization
- establishing work methods
- budgeting
- establishing vacation schedule
- forecasting production
- etc.

You probably notice that these plans cover different amounts of time. Plans are referred to as **long-term, mid-term** and **short-term** plans.

LONG-TERM PLANS include your financing plan and your strategic plan, which is simply the outline of how you want your business to develop and grow. When the financing plan and the strategic plan are combined, they may also be called a business plan. These plans cover three to five years. One or all of these will usually be required by a banker or other source of money. The reason they want it is simple -- they want to make a long-term commitment to you, and they won't feel comfortable doing that unless they can see into your crystal ball and see your best estimate as to what is going to happen down the road. You'll probably do only one or two of these, and you should check to see how you're progressing every six months or so.

MID-TERM PLANS are made up of your "big" objectives. Entrepreneurs are usually very good at this level, i.e. launching new products, opening up new sales territories, building a strong team of employees. Mid-term plans run from one to three years, and are reviewed every month or so.

SHORT-TERM PLANS are the operational, day-to-day plans. These are the plans that get the work out, the orders filled, and the deliveries made on time. Entrepreneurs are usually exceptionally good at this level because we are so resourceful; however, it is easy to get caught up or distracted by these short-term concerns, and we have to work hard to occasionally look up from the grindstone long enough to take a directional bearing on the horizon. In other words, it's fine to stick to the knitting, but don't forget that you have to buy yarn in advance and plan your product line to match the selling seasons. Short-term plans should be reviewed daily or weekly, depending upon your production schedule.

As a bare minimum, you should probably have a version of the following plans that achieve the following purposes:

Financing Plan: How much money will you need? Where are you going to get it? When will you need it?

Marketing Plan: How will you sell your product or service? Who will do it?

Distribution Plan: How will you get your product or service to your customers? What limitations do you have to take into consideration?

Production Plan: How will you do or make what you sell? Who will be responsible for keeping it on track?

Beyond these plans you may need various operational plans that keep your place running smoothly. Planning will help you work things out on paper first, and enable you to set up procedures or systems to handle those things that are routine for your business. Those really smart guys who do a lot of planning say that about 85% of your business can be predicted and anticipated; therefore, you can have a plan in place to deal with it. The remaining 15% are the crises, the things you just have to address personally. Because most of your business is running itself instead of running you, you have the time you need to give the proper amount of attention to the things that matter.

Preparing a Plan Step-By-Step

Now that you know the basics, let's apply them in a hypothetical situation. You are the president of a recently formed corporation. You are one of three principal officers and you have two other employees. Your company sells an exciting, mysterious product called a "unit." But, alas, sales during the first four months of your existence are lagging behind the projections of your business plan. Something must be done to correct this situation!

You call a meeting of your officers for a brainstorming session. "Friends," you begin, "we have a problem. Sales are not what they should be. And unless we show a big improvement soon, we're going to start digging our grave. I figure we need to sell 400 units by the end of the fiscal year..."

"Simple," someone interrupts. "All we have to do is drop our price and they'll sell like hotcakes."

"It's really not that simple," you reply. "Dropping our price would undoubtedly increase our sales, but that's only half the picture. Sales won't do us much good unless they generate profit. And since our price is below our competition, I figure we can raise our profit margin one way or the other without hurting ourselves in the marketplace. Now, are there any other suggestions?"

You write them down as they are voiced. "Buy more advertising"..."Hire a salesman"..."Pay an incentive bonus on each sale"..."Renegotiate our unit cost with our supplier"... "Each of us could spend more time selling and less time in administration"..."Concentrate on more telephone selling"... "Take on another product line". All good ideas, and worthy of consideration.

"One thing we're all forgetting," you say. "What if we have that increase in sales volume? Could our storage room handle it? It would be absolutely necessary to expand our storage capability."

After a lengthy discussion, you cross off some of the less desirable ideas. Then you note that some of the remaining ideas represent **what** you want to accomplish, while others represent **how** they could be accomplished.

Before you resolve that issue, you say, "Let's all agree that we have one major goal, and that is to sell 400 units at, say, a 35% profit margin by the end of our first year." All agree.

"Now," you add, "let's sift through our thinking until we develop a list of what we must do to reach our goal. We'll call those our objectives."

You take out a Planning Worksheet and fill out the top part as follows:

PLANNING WORKSHEET

GOAL: Sell 400 units at 35% profit margin by end of year

OBJECTIVES:
1. Hire and train one additional salesperson
2. Increase profit margin by 5%
3. Expand storage capacity 50%
4. Secure 500 additional sales leads by Jan 3

You note that your first objective is to hire and train one additional salesperson. But three separate actions are required to accomplish that objective:

1. "Help Wanted" ads must be placed.

2. A screening process must take place in order to arrive at the most desirable new employee.

3. The new salesperson must be trained.

You continue with your list of each action necessary until your list looks like this:

Priority	Action (Tasks)	Due Date	Responsible Person	Results
	Place "Help Wanted" ads			
	Screen and hire salesperson			
	Conduct training program			
	Study feasibility of price increase			
	Renegotiate unit cost with supplier			
	Add shelving to store room			
	Revise and increase ad budget			
	Order advertising space			

"Now, I want to schedule all of these tasks as realistically as possible and to coordinate our activity logically," you say. "We should be aware of how much time is required for each task, especially for things like training and advertising lead time. So I'll write in a number in front of each task to show the sequence in which they should begin. Naturally, some actions can run concurrently with others. Then I'll be able to fill out the date by which each task should be accomplished."

You show the group how your Worksheet looks at this point:

Priority	Action (Tasks)	Due Date	Responsible Person	Results
	1. Place "Help Wanted" ads	9-24		
	2. Screen and hire salesperson	10-15		
	3. Conduct training program	11-30		
	2. Study feasibility of price increase	10-3		
	3. Renegotiate unit cost with supplier	11-1		
	4. Add shelving to store room	12-1		
	1. Revise and increase ad budget	9-24		
	2. Order advertising space	10-15		

You still have the floor. "I'm going to place someone in charge of each task, according to your usual responsibilities. If we all pull together as a team, I'm sure we can reach or surpass our common goal. And don't kid yourselves; each task is vitally important. We can't afford to find any piece of the pie missing in December.

"My final step in developing this total plan is to put a priority number on each task. The figure "1" is a top priority, and "3" is lowest. I realize these numbers are a judgement call on my part, but I have an idea up my sleeve that will make these little numbers very important to you.

"If a number one priority is accomplished on time and to my complete satisfaction, the person in charge of that task will receive a $300 bonus. Number two priorities will receive $200. And number three will receive $100. Agreed?"

You dash to the copy machine and pass a copy of your worksheet around. It looks like this:

PLANNING WORKSHEET

GOAL: Sell 400 units at 35% profit margin by end of year

OBJECTIVES:
1. Hire and train one additional salesperson
2. Increase profit margin 5%
3. Expand storage capacity 50%
4. Secure 500 additional sales leads by Jan. 3

Priority	Action (Tasks)	Due Date	Responsible Person	Results
2	1. Place "Help Wanted" ads	9-24	Bill H.	
1	2. Screen and hire salesperson	10-15	George M.	
1	3. Conduct Training program	11-30	George M.	
2	2. Study feasibility of price increase.	10-3	Mary J.	
1	3. Renegotiate unit cost with supplier	11-1	George M.	
3	4. Add shelving to store room	12-1	Hank P.	
1	1. Revise and increase ad budget	9-24	Bill H.	
2	2. Order advertising space	10-15	Bill H.	

The Planning Worksheet proved to be an ideal working document for this small company. Everyone knew exactly what was expected of him; everyone had a sense of teamwork; and the goal was beautifully accomplished. But not without the usual roadblocks and unplanned occurances. Adjustments had to be made, but they were made with wisdom and fairness to all.

By the end of the fiscal year, March 31, the final version of the Planning Worksheet looked like this:

DATE: ____________

PLANNING WORKSHEET

GOAL: Sell 400 units at 35% profit margin by end of year

OBJECTIVES:
1. Hire and train one additional salesperson
2. Increase profit margin 5%
3. Expand storage capacity 50%
4. Secure 500 additional sales leads by Jan 3

Priority	Action (Tasks)	Due Date	Responsible Person	Results
2	1. Place "Help Wanted" ads	9-24	Bill H.	Two ads placed; 27 applicants
1	2. Screen and hire salesperson	10-15	George M.	Gail B. hired 10-10
1	3. Conduct training program	11-30	George M.	Training completed on time
2	2. Study feasibility of price increase	10-3	Mary J.	Feas. study positive. Report delayed 2 wks. See comments.
1	3. Renegotiate unit cost with supplier	11-1	George M.	Completed 11-1. Need 200 more units for 5% price break
3	4. Add shelving to store room	12-1	Hank P.	Completed 11-24. Capacity up 60%
1	1. Revise and increase ad budget	9-24	Bill H.	Revisions approved 9-22
2	2. Order advertising space	10-15	Bill H.	Delayed until 10-22 due to art lost in mail.

Comments: Mary J. hospitalized 9-24. Function assumed by Bill H.
Three suppliers interviewed re price. No deal.
Ads produced 623 leads. Turned over to Gail. Sold 421 units!

Before closing the book on our foregoing example, there were several other important planning considerations:

1. **Consider the Constraints.** What limitations do you have to take into account? What resources do you have, including money, people, time, equipment, etc.? What potential problems are you likely to encounter?

2. **Develop a Back-Up Plan.** If the worst happens and your plan falls apart, what will you do? In a particularly important scheduling situation, you may want to actually have two back-up plans.

3. **Establish Control Points.** You must be able to tell how your plan is progressing, and you need to be sensitive to changes in direction. Your control points can be people, written reports, sales ledger, bank account or charts.

4. **Chart Your Plan.** Although the Planning Worksheet is an ideal planning guide, it does not serve the function of a work flow chart. Good planning deserves good follow-up, made possible by a chart like this:

ACTIVITY	First Week	Second Week	Third Week	Fourth Week	Fif Wee

SUMMARY

You know planning is important; now you know how to do it and when to do it. If you keep the following guidelines in mind, you will be able to PLAN FOR SUCCESS.

GUIDELINES FOR SUCCESSFUL PLANNING

1. PLANNING IS A PROBLEM-SOLVING PROCESS.
2. PLAN MUST BE FLEXIBLE, AS SITUATIONS CHANGE.
3. PLANS MUST REFLECT REALITY.
4. PLANS SHOULD REFLECT THE SKILLS AND KNOWLEDGE OF THE IMPLEMENTERS.
5. PLANS SHOULD STATE SPECIFIC WAYS TO ACHIEVE THEM.
6. PLANS MUST BE COMMUNICATED TO PERSONS AFFECTED.

CHAPTER 19

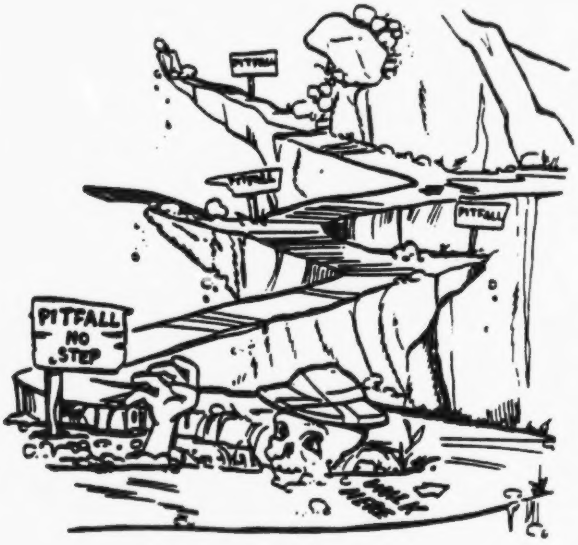
Pitfalls and helpful hints

Every cloud has a silver lining

We considered calling this chapter "Challenges and Opportunities" -- for fear "Pitfalls" might be too foreboding. But, let's face it. There **are** some pitfalls out there. But don't think they're going to sneak up on you like Murphy's Law.

Pitfalls are only something to worry about **if you don't know where they are.** Once you know where they are, you just step around them. By itself, a pitfall is harmless.

This chapter is our way of saying, "Be careful out there." We think you're ready to face the challenge of entrepreneurship. If you have studied the previous chapters, you have the knowledge you need to work toward your goals.



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"Pitfalls are problems and traps to watch for. Recognize them when you see them. Once identified, they become challenges, or opportunities, or just passing nuisances.

This chapter is about keeping both a mental and physical checklist of **potential** pitfalls, how to recognize them, and how to avoid them -- or make the most of them. Most of the pitfalls are clearly marked. Just look for the signs.

Because most newcomers in the business world fail (NOT YOU, though), we want you to read this chapter several times. Then, read it again six months from now. Then, again one year from now. The idea behind this, of course, is to know those danger signs so well that you will be able to see them miles ahead.

PITFALL NO. 1: GIVING UP TOO SOON

Many would-be entrepreneurs become casualties during the first year of business, leaving a legacy of "No Forwarding Address" and "Has Been Disconnected". Quite often, they self-destruct prematurely. They gave up too soon.

Some of the reasons for throwing in the towel include:

1. It's harder work than they expected.
2. The sacrifices are too great.
3. They're not making enough money.
4. They can't take the "ups and downs" of cash flow.
5. Fear of failure.
6. Impatience.

These can all seem like very real and understandable reasons for becoming discouraged. But ask yourself: "How real is this situation?" Too often the entrepreneur will panic without reason. He or she imagines the situation to be worse than it really is or fails to realize that it may be just a temporary condition.

If you analyze your concerns and decide the situation is probably only temporary, all you need to do is adjust your mental attitude, relax, stick to you plan, and hang in there.

However, if you find these are legitimate concerns requiring attention, you'll need to analyze "what's wrong, and why?"

For example, let's analyze the six reasons we identified above:

1. **It's harder work than you expected.** If you start to experience fatigue and/or "burnout" during the first few months of operation, the first thing to do is give your feeling a reference point. Ask youself, "Harder than what?" Think back to when you were working for someone else. Did you sometimes feel the same way then? Is this really worse? How about the satisfaction of working for yourself instead of someone else?

Also, examine your original expectations. What did you expect? Were you too optimistic in your expectations?

Project your situation down the road, one year, two years, three years. Do you still see yourself working this hard? Or do you see yourself leveling off, getting over the start-up efforts, and delegating work to others.

Finally, ask yourself how you might improve the situation with better planning, better organization and better time management. You might be surprised how just a better use of your time can result in shorter hours and/or less work for you.

2. **The sacrifices are too great.** This is a lot like Number 1. You want to start with a reference point and compare your situation now with what it was before. If you feel you've given up something, what might you have also gained in the process? What about over the long-haul? Won't there eventually be more advantages, more to show for your efforts than in an alternative situation? (When you read the next chapter, you will get a better idea of those rewards.) And what of the sacrifices you make in working for someone else? Sometimes when we cross over the fence, the grass looks greener back on the other side in an amazingly short time. A popular song asked the question, "Was it all so simple then?...Or has time rewritten every line?"

3. **You're not making enough money.** You're in business to make a profit. Unless you're already independently wealthy, no

profit...no business. Not making enough money can be the most "real" concern of all.

Of course, you must consider your start-up costs and the initial slow period of establishing customers, of getting your business "up to speed". Still, if your year-end cost projections have you checking the "Help Wanted" ads, the situation is serious.

A business that is not making enough money is usually in one of two general situations: 1) Business is good but profits are too low. 2) Profits are potentially good but business is too slow.

When business is good but profits are too low, it's usually due to one or more of these causes:

a. You've priced your product or service too low.

b. Your overhead or cost of doing business is too high.

Review Chapter 3, "Forecasting Sales & Budget Planning", and other chapters in this manual to be sure you're set up properly to insure maximum profits.

If profits look good but business is slow, there is always a remedy. Don't make the mistake of looking for excuses. ("The economy is down." "Our major industry is on strike." Etc.) Only losers hang their hats on excuses.

Instead, look for ways to get a bigger share of the market. Spend some money on a better advertising program. Try something different! How about publicity? There must be a million new ideas waiting to hatch. Put in some new inventory. A new sign. New decorations. A special sale. A contest. Do the opposite of what your competitors do. Fortunes are made when everyone's singing the blues.

If after convincing yourself that you're doing everything "according to the book", after consulting your accountant or financial advisor, you feel you're tapping your potential to produce income, you may have to examine your lifestyle goals. It may well be that you'll need to make a choice between making a more modest income, selecting a more profitable business, or going to work for someone else. But it is rare that the creative, aggressive entrepreneur cannot figure out a way to "make more money". The typical entrepreneur simply looks at the situation as one more challenge, an opportunity to apply his ingenuity.

4. **You can't take the ups and downs of cash flow.** This is probably the most common reason of all for small businessmen to "chuck it all" and head for a salaried job with regular pay days. Knowing where your next dollar is coming from can be a welcome relief when you're struggling through a cash-less slump.

A cash flow problem isn't really a lack of income. It's just a lack of regularity, coupled with insecurity. The ups and downs of cash flow in some businesses is especially uncomfortable to the entrepreneur who is used to planning his spending and living expenses around regular pay days. Adjusting to a different system of money management requires proper planning, budgeting and discipline.

If you experience cash flow problems, chances are you can correct the situation by applying the principles outlined in Chapter 3, "Forecasting Sales & Budget Planning".

5. **Fear of failure.** During the crucial first year, the scene often looks like this: marginal financing, sales trickle, tough to pay the bills, a supplier is late with a crucial order, Suzie needs braces, a customer threatens to sue, not much sleep, worry, woe, trouble. They forget to look at the bright spot just over the hill. Instead, they look only at today's bleakness and fear sets in. Fear paralyzes. They lose sight of day-to-day operations. They **think** they're failing, so they do.

6. **Impatience.** This is an emotional reaction which afflicts many first-year entrepreneurs. It has nothing to do with financial strengths, the readiness for expansion, or any of the rational decisions an owner makes. He simply wants (or **needs**) to succeed. Fast. Today. But he looks at the realities of where he is now in comparison with where he wants to be, and he becomes discouraged, restless, and too soon...defeated. Like a deflated balloon, he drops out.

The important message here is that many of the reasons for "giving up" can be imagined "ghosts in the closet" -- not real at all -- or simply temporary problems you can work out. Small business ownership isn't for everyone. But if you think it's what you want, give yourself a good chance to succeed -- even when the going gets tough.

When you're getting close to Pitfall No. 1, "Giving Up Before You Get Started", there are some signs to look for. They're

630

all related to your feelings and mental attitude. Look for: Anxiety, Fatigue, Frustration, Impatience...and sometimes Fear bordering on Panic. And sometimes it's just a general feeling of not being happy with the way things are going.

Listen to your feelings, admit there is a problem, see it for what it is, and look for ways to solve it. Step around Pitfall No. 1...and keep going.

HELPFUL HINTS:

1. **Talk to successful entrepreneurs.** Share your feelings, They've been through it all...they can probably help you over the hump.

2. **Share your concerns with family and trusted friends.** Just talking about your fears sometimes helps put them in perspective.

3. **See the big picture.** Don't get so bogged down in details that you neglect the important business functions. Recognize that too much attention to busy-work details is often an escape mechanism.

4. **Stay healthy.** Avoid traps such as heavy drinking, overeating, or having an affair. Escape mechanisms just take time and energy away from digging out the root of the problem. Schedule time for play and exercise, preferably **non-competitive** sports.

5. **Relax and refresh yourself.** A long walk, a hot bath, a good book...can do wonders toward reducing stress, helping you unwind and refreshing your mental outlook.

PITFALL NO. 2: THE WRONG BUSINESS

In Chapter 1, we told you how important it is to select the right business. Important because if you're good at your chosen business and enjoy it, you're more likely to succeed.

Probably nothing is more devastating than to suddenly fear you've chosen the wrong business. And there are some definite signs.

You may have chosen the wrong business when:

1. You're not happy doing what you're doing.
2. You're struggling to be proficient. (You're in over your head.)
3. You discover hidden problems and liabilities that may threaten the success of your business (you've been "taken").

Choosing the wrong business is probably the worst pitfall of all, because it's the most difficult trap from which to escape. Most other problems can be solved and corrected while you stay in business and move on. But discovering you're in the wrong business usually means going back to Square One and starting over again.. Hopefully, with careful study of Chapter 1 and this chapter, you will recognize the signs before you choose a business. Nevertheless, the sooner you recognize you've made a mistake, the easier it is for you to correct.

Let's look at the signs:

1. **You're not happy doing what you're doing.** Don't confuse this with having **problems,** like the ones we talked about in the first part of this chapter. Problems can be corrected. But if you don't enjoy what you're doing at the start, chances are you never will.

The first sign is right there by your bed when you wake up in the morning. The happy entrepreneur is usually up early, eager to get to his work. The unhappy entrepreneur struggles to push himself out of bed, reluctant to face another day.

Another sign is on the job. The happy entrepreneur, even on his worst days, still says, "I like what I'm doing." The unhappy one, even on his best days, says to himself, "This is pure drudgery."

The happy entrepreneur wants to spend every waking moment at his work--and is usually successful because of it. The unhappy one is forever finding excuses and diversions to avoid work.

YOU CAN AVOID THIS PITFALL by following the guidelines of Chapter 1. Be sure you select a business that suits your interests and goals, both personal and professional goals.

2. **You're stuggling to be proficient.** In other words, you feel like you're in over your head. You have the feeling your product or service is substandard, or maybe that your productivity isn't what it should be. Both conditions might be correctable. But if you're doing things about as well as you know how and you still have problems, you may be in the wrong business. To put it bluntly, you may be incompetent at your chosen business.

Quite often, the cause of business failure is described as "lack of capital". Very few enterprises that might be made successful actually fail for lack of capital, however. There is usually a bank or friend willing to lend reasonable funds to a potentially successful business.

The overwhelming cause of failure is incompetency which results in a shortage of capital through waste. As capital is wasted, lender confidence is shaken. The incompetent finds it difficult to borrow more.

YOU CAN AVOID THIS PITFALL by following the guidelines of Chapter 1. Be careful to select a business you know something about. It's hard enough just being on your own. If, on top of everything else, you don't know much about the business you're operating, you are courting disaster.

3. **You discover hidden problems and liabilities.** In other words, you've been "taken". This can happen to even the smartest and shrewdest of entrepreneurs. Unfortunately, the world is full of swindlers and dishonest businessmen. Even reputable franchises or chain operations often, supposedly, "color the

truth" by hiding some important information or painting a rosy picture to a trusting buyer.

Problems like financial liabilities, personal injury or liability suits, faulty equipment, incompetent employees, a "dying" neighborhood or a declining market are just some of the "hidden" conditions that can cripple or even kill an otherwise promising business.

YOU CAN AVOID THIS PITFALL by following the guidelines of Chapter 1. Above all, enlist the help of professionals before you go into or buy a business. A lawyer, CPA, marketing consultant, successful entrepreneurs, your banker...all can help you avoid this deadly pitfall.

HELPFUL HINTS:

1. **Study the business you're considering.** Spend some time around it. Get involved, perhaps on a part-time basis. Be sure you're going to like it.

2. If you insist on buying or starting a business you know little about, **hire competent people who do know the business** -- and use them; learn from them.

3. **Have the former owner sign an agreement not to compete.** That way he can't change his mind next year and go back into business again as your competitor.

4. **Above all, take your time.** Beat the bushes and shake the trees, but don't be in a hurry to pick up the first deal that falls to the ground. Buying a business will be one of the most important capital commitments of your life. Take the time to investigate everything thoroughly. Don't be pressured into making a quick decision for fear of missing an opportunity. There will always be another one.

PITFALL NO. 3: THE WRONG PEOPLE

As you progressed through the chapters of this manual, one message should have come across loud and clear: **You can't do it**

all alone. Even if you're a one-man superstar of your chosen career, you need the help of others to succeed. Even entertainers and athletes need a good agent, a good coach, and back-up help.

In the first chapter we stressed the need for good professionals, such as attorneys, CPAs and bankers, in getting off to the right start. In later chapters you saw the important roles these people and others -- advertising people, consultants, and your own employees -- will have in helping you succeed. Because people play such a vital role in your success, choosing the wrong ones is a pitfall to beware.

How do you choose the right people? Generally, the same way in which you choose a business...carefully, and with certain criteria in mind.

Choosing Business Professonals

Just as you'll stand a better chance of succeeding in a business you know something about, the professionals who help you will do a better job if they know something about your business. Many a business has gone wrong because a CPA advised the wrong structure, or an attorney approved the wrong deal, or an advertising agency launched the wrong marketing campaign.

These professionals, as well as other consultants, have their specialized areas. Either by choice, or by the clients they deal with, they are familiar with certain types of businesses and unfamiliar with others. So don't select an attorney, an accountant or an advertising agent just because he or she is a friend, a neighbor, or comes highly recommended by someone in a totally different kind of business. Check their present and past clientele. Ask for references, and check them out. And if you think you've made a wrong choice, be quick to correct the situation.

Choosing Employees

From your key "right-hand-man" manager down to an entry level clerk-typist, the right employees can affect productivity, efficiency, image, and sometimes the success or failure of the business.

When people are behind the scenes, that is, not in contact with your customers, your main concern is their ability to do the job. On the other hand, when it comes to people who will be meeting your customers, your concern is not only what they do, but also how they do it. Appearance, personality, temperament, and so on all come into play; and these people must be chosen with special care.

In addition to our Chapter 17, "Personnel Management", there are many books written about the hiring/firing and management of employees. It would be worth your time to study techniques of writing an effective ad, screening applications and resumes, and conducting meaningful interviews. This chapter will not cover the subject again, but let's review some key guidelines:

1. **Write a job description.** Spell out exactly what the primary function of the job is, plus all the duties and responsibilities expected of the person filling the position.

2. **Be prepared with a list of questions** that will probe the qualifications of the applicant. The more you can find out about your applicants, the easier it will be to compare candidates against one another.

3. **Verify information.** Anyone can fake a resume or lie during an interview. Check to see that the applicant really has done and can do what he or she says. Verify places of employment, reasons for leaving prior jobs, and education.

4. **Check personal references.** Not just the ones the applicant supplies. Ask former employers and peers of the applicant about personality traits. One of the most common mistakes in hiring people is to hire just on functional skills alone, then finding out later that the

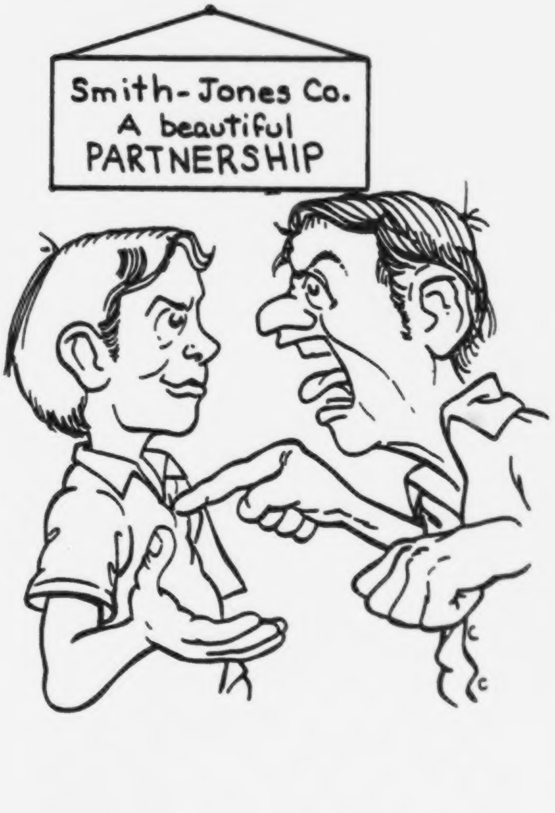
person is dishonest, can't get along with others, or has peculiar habits that "turn off" fellow employees and/or customers.

5. **Solicit the opinions of others.** If possible, have present employees visit with the applicant. They can often learn or observe things you miss and can sense how well the applicant would fit in with the group.

Don't take the attitude that you can find the right employees by trial and error, hiring and firing until you get the right ones. Besides not being fair to the hired-and-fired, it's a waste of both time and money. (Besides the expense of attracting applicants, you'll also have unemployment contributions to pay.) In addition, the "revolving door" policy can have a disturbing and disruptive effect on both employees and customers.

Choosing Business Partners

Partnerships have about the same mortality rate as marriages, and for many of the same reasons. At first, everything is love and kisses. Partners boost one another's morale and reinforce each other's excitement. They have their first argument, discover traits or hostilities previously hidden, and the honeymoon is over. From then on, it's all downhill.



There isn't a "sure-fire" way to choose a business partner any more than there is to choose a marriage partner. Both decisions should be approached with the same care.

In fact, when it comes to **two-man** partnerships, our best advice is: **don't.** No matter how compatible you are, eventually there will be a difference of opinion. When you're 50-50, there's no way to reach a consensus. Better to have three or more, preferably an odd number.

In any partnership, be sure to have a written buy-sell agreement. It will eliminate future bickering and lawsuits. Without a prior agreement, should a partner withdraw or die, how do you determine the value of the partner's interest and the terms by which his or her interest is to be paid?

Tips for Choosing Partners

1. Choose a partner who supplies a needed strength you are lacking. Don't just duplicate strengths you already have.

2. Be sure you share similar ideas about business goals and methods of running the business.

3. Stay away from partners who want to run the whole show, or who lack respect for your abilities. What you're after is teamwork and compatibility.

4. Watch out for partners who have personal debts or life style expenses that might put an excessive drain on company funds. Company "draws" and high-roller expense accounts can deplete needed cash.

5. Watch out for partners whose life style, morality and attitudes are markedly different from yours.

PITFALL NO. 4: THE ACTIVITY TRAP

If you find yourself saying, "I'm always busy -- but I can't seem to get anything done"...you've probably fallen into The Activity Trap. In other words, you're spending too much time doing "busy work" and not getting the essential work done. The result can be lost business, lost profits -- in a nutshell, operating in a manner that's not efficient or cost-effective. People who go into business for the first time often fall into the Activity Trap by getting "too organized" -- that is, they create complex and cumbersome recordkeeping systems, files of things they don't need, and get all caught up in extraneous things like choosing wallpaper for the office, or clerical work that could be delegated to someone else.

If the important things don't seem to be getting done, if you find yourself drowning in a sea of paperwork, if you find yourself working long hours with not enough accomplished to show for it -- you may be in the clutches of the Activity Trap. To stay out of it, list priorities on your "To Do" list and then ask yourself:

Why am I doing this?

Is it necessary?

Is there a better way?

Why am I doing this? This is really a double-edged question depending on where you put the accent. If you ask "why **am** I doing this", the question suggests that perhaps someone else should be doing it. If the question is "why am I **doing** this", it suggests that perhaps what you're doing either isn't necessary or it could be done later.

Be aware of when you should be doing a task and when you should be delegating it to someone else. Remember that your job is to manage the business, and anything that isn't contributing toward your business goals is an inappropriate use of your time.

Is it necessary? Watch out for the time wasters -- those activities that gobble up your days and leave you with little or nothing to show for them. A meeting that could have been handled with a phone call. A trip across town that could have been handled by mail. A lengthy memo that everyone could do without. These are all examples of time wasters to watch out for. A good "To Do" list, with carefully assigned priorities, can do much toward keeping away the time wasters and keeping you off the treadmill.

Is there a better way? There usually is. "Finding a better way" has made inventors famous, entrepreneurs rich, and companies leaders in their industry. Chances are, when you hear yourself saying "there must be a better way", there probably is, if you think about it. Perhaps a better system, a short cut, or the use of a machine or computer can handle the task in less time. Apply your ingenuity to find better ways of doing things at every opportunity.

HELPFUL HINT: Keep a diary of your time for a week or more, including both business and non-business time. Itemize anything that takes 15 minutes or more. At the end of your sample period, analyze your diary. You may be surprised to see how much time you spend on trivial matters, and how little time is actually spent productively.

If you want to eliminate wasted time, set a reasonable goal of **productive time** daily, then check yourself via the diary routine. Leave adequate time for meals, travel, breaks or other regular non-productive necessities. And remember, your objective is to eliminate waste, not drive yourself into a heart attack.

PITFALL NO. 5: THE MONEY DRAIN

In Chapter 3 you learned the wisdom of realistic sales forecasting and budget planning. Proper forecasting and budgeting will go a long way toward conserving and using your money in a sensible way.

But money can easily "disappear" in seemingly strange and mysterious ways. And pretty soon you're asking, "Where has all the money gone?"

There are three major ways your money can disappear:

1. People can steal it from you.
2. You can "steal" it from yourself.
3. You can overextend your resources.

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People can steal your money. Embezzlers and "under-the-table" kickbacks are a fact of life in business. A clever, dishonest employee can rob you of many thousands of dollars without your even suspecting, especially if that person has total responsibility and control of the books and the money. For this reason, it's a good idea to split the responsiblity for this area between two or more people. Second, regularly check the books yourself. If something "doesn't smell right"...check it out.

You might be stealing from yourself. One of the great temptations for new business owners is to spend money like crazy on anything that can be "written off" - new cars, expensive equipment, entertainment, travel, new furniture. Pretty soon they've just about written off their bank account and find they have a serious cash flow problem: not enough money to pay their bills. Remember that your first year or two are the toughest from a financial standpoint. You need all the cash reserve you can hang on to. So wait awhile before you start living in the manner to which you would like to become accustomed.

Over-extending your resources is another way to drain your available money and cause cash flow problems. The most common way businesses over-extend resources is by expanding too soon, i.e., moving to a bigger office, adding on, remodeling, etc. Too often this kind of expansion is premature. The business owners think, "Hey, things are going great." Business is booming. We can afford a bigger building, more employees, new equipment." And before long, our optimistic business owners have doubled or tripled their overhead. Later, when business falls off or doesn't meet the forecast, the overhead becomes too heavy a financial burden.

Resist the temptation to expand to meet only **anticipated** sales or growth. You may be riding a peak, but you'll need cash reserves for the valley. Seek advice from your banker and your accountant before committing yourself to a substantially higher overhead.

Tips for avoiding the Money Drain:

1. Keep an eye on your cash, your books, and the people who handle both.

2. Use moderation when it comes to credit cards, charge accounts, and "write-off" expenses.

3. Keep your salary (and those of partners) to a minimum, epecially during the first year or two.

4. Put off expansion and additional overhead until you've established a good track record and a strong financial base.

5. Plan for "the-worst-has-happened" contingencies.

6. When your urge to expand is overwhelming and your business is in full bloom, look at all the **external** factors which affect your business: market trends, general economy, population shifts, demographics, competitors, new products, etc.

PITFALL NO. 6: EMPLOYEE PROBLEMS

Employees will always play a role in the success or failure of your business. Good ones can help you. Bad ones can hurt you. As an employer, you need to recognize which is which, hoepfully before you hire them, but certainly when they're on the job.

Earlier in this chapter, we talked about proper hiring techniques. But once the hiring is done, how do you hang on to the

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good employees? And how do you weed out the bad ones?

In Chapter 17 you learned the important techniques of motivating and managing people. By putting those principles into practice, you can avoid most people problems. Still, you need to watch for the signs when people problems might be hurting your business.

The following are some of the **danger signs** to look for in the employee ranks:

1. **Disgruntled employees.** An unhappy, sour employee can turn away customers and upset the morale of other employees. Either way, you're the loser. When someone looks disgruntled, find out why. If you can't satisfy the employee, suggest that he or she find employment elsewhere.

2. **Shrinkage.** Otherwise known as "someone is robbing you blind". This is a two-fold problem. Besides the monetary loss, you have an employee who is disloyal -- not on your team. You need to weed out this employee for both reasons.

3. **Bottlenecks.** Someone's holding up progress. There can be many reasons for a bottleneck including just plain overload of work. But it may be a case of the Peter Principle: the employee has been promoted beyond his or her competency. Or it may be personal problems at home. Whatever the cause, a bottleneck is **your** problem and it must be addressed right away.

4. **Turnover.** If your office or company seems to be a revolving door for employees, you've got real problems. Whether it's your idea or theirs, frequent exiting of employees is expensive, non-productive and, usually, a sign of poor management. Why are they leaving? Are you

an unreasonable boss? Is the pay too low? Are conditions intolerable? Is there a lack of purpose, incentive or direction? Get to the heart of the problem and correct it.

Whether it's you and one assistant or a staff of hundreds, employees are a valuable resource. Learn to be a good boss and a good manager. Cultivate effective leadership techniques in those that have charge of others. Build a team of loyal and productive people who will help build your business and keep it successful.

Tips for building a loyal team of employees:

1. **Recognize the sour apples** before they spoil the rest of the barrel.

2. **Use leadership instead of a whip.** People will work harder for you and do a better job if they **want to**, than if driven or threatened.

3. **Communicate with them.** You won't know about many problems unless you ask. And listen to what they tell you. You may uncover problems concerning morale, motivation, incentives, working conditions and so on. Then, you can try to correct them.

PITFALL NO. 7: NICE GUYS USUALLY LOSE

There are times when it will pay for you to be unreasonable. The reason is simple: You will often be in the position of adversary.

You will have to engage in hassles and negotiations with employees, suppliers, customers, banks, governmental agencies and competitors. Most such negotiations involve a certain amount of give and take. That is, each side usually grants a few concessions in order to arrive at a settlement.

You, the small businessman, will be seeking lower wages, less taxes, lower purchase prices, higher sales prices, more advantageous delivery schedules, better bank terms, fewer government restrictions, etc. Your business adversaries will likely be seeking just the opposite.

644

Most of these conflicts will result in some sort of compromise for both sides. Thus, your aim is to end up as close as possible to what you really want. The key to coming out with the "long end of the stick" is to start from a position of being unreasonable. Ask for a lot more than you're willing to settle for. You'll end up closer to what you want.

Remember, nice guys usually lose. You work hard for your money. Don't let other people con you out of it or jeopardize your ability to stay in business. In money dealings, be aggressive, firm, money-smart. And when you need to be, be unreasonable.

PITFALL NO. 8: BOOKKEEPING & ACCOUNTING FIASCOS

Don't forget that "bookkeeping" and "accounting" are not synonyms.

Bookkeeping is the process of recording details, making entries into journals and ledgers, and making order out of all the invoices, vouchers, checks, receipts, etc.

Accounting is the process of putting it all together. Accounting is a higher level process. It requires more training and background than bookkeeping.

The mistake many businessmen make is confusing bookkeeping with accounting. They will give accounting responsibility to a bookkeeper and end up with a meaningless mess. Or, they'll hire an expensive, highly qualified accountant and expect him to spend his time preparing checks and running the bookkeeping machine. Actually, you need both. If your business is small, you can usually get by with a full-time bookkeeper on the premises and an outside professional accountant coming in periodically for the general ledger work and preparation of financial statements.

Small businessmen also make the mistake of systems overkill. They'll say, "What we need around here is a better system" -- and rush to install a complicated barrage of textbook systems: vouchers, journals, subledgers, cost accounting, budgets, etc. -- the works. Later, they will find out that: (a) the systems are too complicated for the staff people to implement; or (b) the system is too complicated, period. All they might really need is a simple, basic (and inexpensive) system.

Bookkeeping Hints:

1. **Keep it simple when starting out.** Add systems, people, computers in stages as your business grows.

2. **Use checks instead of cash.** Cancelled checks are your records.

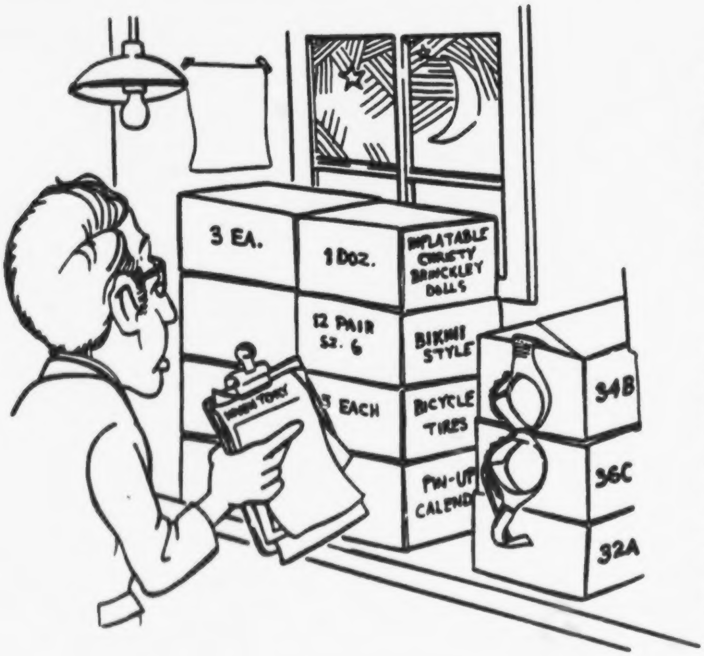
3. **Use credit cards for travel and entertainment.** It's good proof of the amount, time and place for IRS purposes.

4. **Get professional help from an outside accountant.** And do it **before** you set up your bookkeeping and accounting system. Don't take a mixed-up box of receipts and papers to an accountant at the end of the year and expect him to make any sense out of it.

PITFALL NO. 9: INVENTORY OVERKILL

Ever hear of Pareto's Law? Pareto's Law says that within any given group, a few items are important, but most are unimportant.

For example: a small part of the total population owns most of the country's wealth; a small percentage of salesmen create a majority of a company's total sales; and so on.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INFLATABLE CHRISTY BRINCKLEY DOLLS
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BIKINI STYLE
3 EACH
BICYCLE TIRES
PIN-UP CALEND
INVENTORY
34B
36C
32A

While the tracking of inventory is necessary, it is, potentially, an area where time can be squandered unnecessarily.

You will find Pareto's Law can be usefully applied to taking inventory. If you analyze your inventory, chances are you will find something like the following:

A. 10% of the items = 60% of the inventory's total value.

B. 30% of the items = 30% of the inventory's total value.

C. 60% of the items = 10% of the inventory's total value.

Now, instead of trying to keep track of every single inventory item, do this:

"A items" - keep track of each individual item.

"B items" - keep track of in total only and count periodically.

"C items" - estimate and count infrequently.

In other words, you keep track of the big ticket items and don't waste your time on the nuts and bolts.

PITFALL NO. 10: QUALITY (NON-) CONTROL

Most companies have a Quality Control department. It might be as sophisticated as a computer-based testing device that measures precision or tolerances to one-millionth of an inch. Or, it may be a little old lady at the end of the production line who gives it her trained eye once-over.

Whatever the degree of sophistication, quality control is an important part of doing business for the following reasons:

1. To avoid returned goods and lost sales.

2. To protect the image and reputation of both the product and the company.

3. To avoid lawsuits and customer liability.

These are all valid reasons for paying attention to the "Q.C." department in your business. In some businesses, restaurants for example, word of an inferior product can spread like wildfire and threaten the very existence of the establishment. Even if you're in a service, if the quality of that service falls off, you may lose overnight the customers it took years to acquire.

Of course, the most serious calamity is a defective product resulting in injury or death. Even with adequate insurance, few companies can survive the financial and mental turmoil that can follow such a tragedy.

You may be tempted to "water down" or compromise your product to cut costs and/or make more profit. But the ultimate cost of such a step may be too high a price to pay.

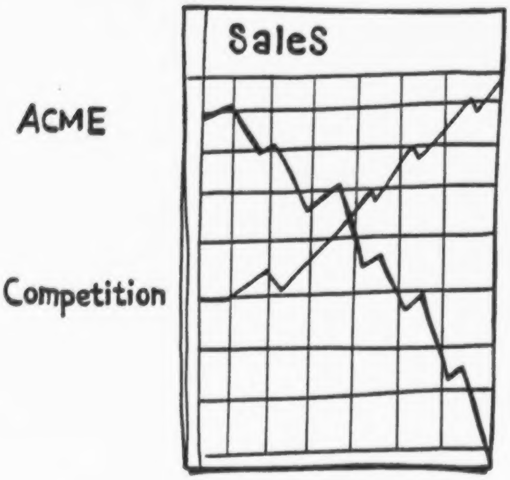
PITFALL NO. 11: YOUR CHANGING MARKET

Not all businesses that fail do so in the first few years. Some become casualties after ten, twenty, thirty years of

648

thriving success. News of these "deaths" usually have people wondering "how did it happen".

More often than not, the reasons can be summed up in one word: **complacency**.



Complacency is a fancy word for becoming too **smug** about success...and assuming it will continue automatically forever. Complacency is what the hare felt when he thought he could afford to take a nap and still finish ahead of the tortoise.

If there is one thing you can count on besides death and taxes, it's change. Customers need change. Buying habits change. The economy, the birth rate, the competition, the mood of the country -- all change. Your ability to **continue** your success, once you've "made it", will depend upon your ability to plan for change, **recognize** it when it's happening, and **react** to it in positive terms.

Helpful Hints for "keeping up" with change:

1. **Have a marketing plan.** You and your marketing professionals should have, at a minimum, a 3-year plan.

2. **Keep in touch with your customers.** Whether an informal chat or a sophisticated "focus group" study -- you need to know your customer wants and needs **as they change.**

3. **Watch your competition.** Are they taking a bigger market share? Are the "little guys" moving up? Are the big ones pulling away? Find out why and get back in the race. Competition, after all, is what makes life interesting, exciting, and FUN.

4. **Strive for new and better products and services.** If you're standing still, you're probably falling behind. A strong offense is your best defense.

PITFALL NO.12: NO HELP (SBA TO THE RESCUE)

One of the biggest mistakes you can make is trying to "do it all alone"...especially when the going gets tough. There are times when the best of us must say "HELP" and call for the cavalry...otherwise known as the Small Business Administration.

Your local SBA office is there to help people like you succeed. Toward that end, they can provide you with dozens of pamphlets (most free) filled with sound advice. Everything from "Checklist for Going into Business" to "Handbook of Small Business Finance".

They can also provide you with a list of pamphlets available from the Superintendent of Documents, Government Printing Office, Washington, D.C. Most of these pamphlets are free.

If you need financial aid, the SBA can help you get a loan and even guarantee up to 90% of it under a special loan program, as we discussed in Chapter 5.

Other SBA programs include:

1. Equal Opportunity Loans and a long list of other special category loans direct from SBA funds.

2. Guaranteed Surety Bonds.
3. Management and technical assistance.
4. Government contract opportunities (they'll get your name on the bidders list).
5. Contacts with consultants and professionals.
6. A variety of courses, conferences, workshops and clinics on the various subjects relating to the successful operation of a small business.

SUMMARY

In this chapter we have pointed out some of the pitfalls that can trip you up along your road to success, and some to watch for after you've "made it".

We're all human; we all make mistakes. No mater how well we learn the principles and guidelines of successful entrepreneurship and good business management, we still end up learning some lessons the hard way.

It is our hope that by pointing out the dangers and the signs to look for you can recognize and avoid the pitfalls. But we have also shown you ways to minimize the damage and solve the problem if, and when, a pitfall "gets you".

Certainly, we don't want you to be frightened or paranoid, imagining monsters around every corner. On the other hand, being a "blind optimist" is inviting trouble. Somewhere in between is the confident yet cautious successful entrepreneur.

CHAPTER 20

On the road to success

Pack your own bag

"You are what you eat," say nutritionists. Motivators could say, "You are what you think."

Your thoughts determine your success in a new business enterprise at least as surely as financial and marketing preparations do.

By firmly **believing** that you will succeed, you improve your chances for success. It's as foolhardy NOT to believe that you would **succeed** as it is to start a business with the firm belief that you would **fail**.

A number of attitudes and beliefs - call them "points of view" - promote this faith in success.

OTHERS HAVE DONE IT, SO CAN I

"The greatest barrier to achievement is lack of adequate self-esteem to support it," says Dr. Nathaniel Branden, a psychiatrist and best-selling author.

If you don't have self esteem, you'd better find some. Just deciding that you have as much right to self esteem as anybody else helps you develop it.

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Self esteem activates faith that the outcome of your efforts will be what you intend them to be.

"Faith," said Leo Tolstoy, "is the force of life."

Believe in yourself. Here, at the beginning of your grand enterprise, you have a crucial choice to make. You can choose either faith...or fear. One of these two emotions will dominate your life and determine whether you will succeed or fail.

You must make a conscious decision - right now - to let faith lead you to success.

Choosing faith in success is a logical move from one point of view. It is ILLOGICAL to choose failure - but some people think and act as if that's what they've done - so, practically speaking, they **have.**

Fear of failure is not going to help you reach your goal. That's the best reason to just **ignore** it. Fear is counterproductive: Fear is not a constructive thought. When you find yourself swept up in it, remember Roosevelt's famous World War II admonition: "The only thing we have to fear is fear itself."

You want to reach your goals and fear is not going to help you get there; so don't allow it to influence your thoughts and actions.

Choose FAITH.

Faith was just about all that David Schwartz had going for him. And it was **enough.**

He was operating a one-lot used car dealership in West Los Angeles in 1978 when he discovered a niche in the car rental business between one-day rentals and fleet rentals. The niche was a hidden demand for long-term rentals of used cars in good condition. The demand is created by people who are between cars, who are on vacation, whose cars are in the shop. People who've been transferred to a new job in a new city sometimes need a car for a week or more.

Schwartz began renting his used cars, sometimes for months at a time, and then went into franchising the business he called

"Rent-A-Wreck." His prices were half what the big three in the rental business charged, one of the main reasons for his success.

By 1983 he had more than 200 franchises in the U.S., Australia and the Bahamas. In that year **Venture** magazine rated him one of the 10 fastest growing franchise operations in the nation.

Schwartz didn't hire a management consultant or conduct a marketing survey before he began. The success of Rent-A-Wreck was a result, he says, of "luck, timing and a wild idea."

RENT-A-WRECK

But, Schwartz wasn't reckless or foolhardy. He knew the risks. And he didn't let them stop him. He considered them carefully; then set out with determination to make his idea work. Once he got started, he did everything by the book to make sure that his success would continue.

Schwartz, whether he knew it or not, lived by a precept of Henry David Thoreau: "If you have built castles in the air, your work need not be lost; that is where they should be. Now put the foundations under them."

Faith. Schwartz had it.

Believe, as David Schwartz did, that "My best WILL be good enough."

Expect wonders from yourself.

Believe! The tide WILL turn. A miracle WILL happen.

John Wallace, an unemployed tow truck driver in Seattle, down to his last $100 with a family to feed, had total faith in himself and his idea.

He knew from experience that 90 percent of tow truck calls were for minor problems that could be repaired on the spot, where the vehicle broke down. So, in 1979, he started Auto Medics of America, using his old pickup truck.

His early goal was 30 mobile repair vans operating in the Seattle area. Later, he started a highly successful preventive maintenance program for fleet operators. He now sells parts for less than auto parts stores and still makes a 50 percent profit because he buys directly from the factory.

If John Wallace hadn't **believed** in himself and in his idea, he wouldn't be the big success he is today.

If you really believe that you are going to succeed, as Schwartz and Wallace did, you are actually using auto-hypnosis - hypnotizing yourself to act in a way that promotes the success you visualize and dream of.

Dr. Norman Vincent Peale, who introduced the phrase "positive thinking" into our language and into our collective psyche, says in his book **You Can Win** that, "Faith is stronger than will."

"You can pre-condition your mind to success," says Dr. Peale. "This is the basic principle of positive thinking. You can actually forecast what your future success will be from your present type of thinking."

Take Chances

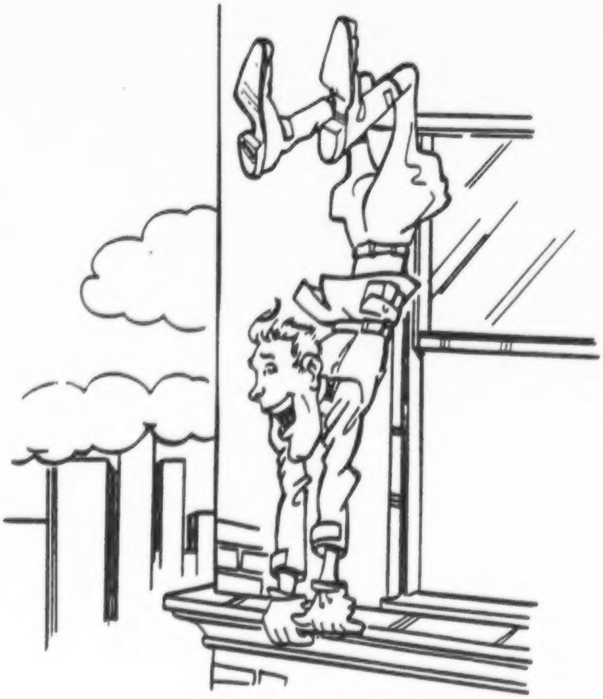
To do great things, it is necessary to take chances, as Schwartz and Wallace did.

But, take CALCULATED chances.

The story is told of Capt. Eddie Rickenbacker, the first air ace in U.S. history. He won the Congressional Medal of Honor in WWI. At a boisterous celebration after the war in a 12th room, the war hero was moved to display his bravado by standing on his head on the window ledge.

Later, somebody asked him why he had taken such a risk - 12 stories above the sidewalk.

Exhibiting the self-confidence that was an essential ingredient in his bravery, Capt. Rickenbacker pointed out that there is a big difference between "calculated risk" and "foolhardy risk". He had taken a well-calculated risk. He KNEW that he could stand on that window ledge on his head without falling.



If all entrepreneurs were as confident, there would be fewer business failures.

You are not taking a foolhardy risk if you have studied the chapters in this book. You learned in Chapter 5, for example, how to prepare a Loan Proposal. It would be risky indeed to approach any lender without such a comprehensive proposal. Your GREAT IDEA could die on the vine, and **that** is the ultimate calamity for any new business. On the other hand, by applying what you learned, you are taking a well calculated risk.

Be Willing to Sacrifice

Besides being willing to risk, be ready to sacrifice.

If you have any qualms about making sacrifices to succeed, remember this: Whatever you sacrifice should be less important in your life than what you sacrifice FOR. If it isn't, you've made the wrong choice about how to earn a living.

This is NOT a recommendation to abandon family life. The strength you derive from a rich family life is vital to success.

At the same time, don't sacrifice so much that all that remains in your life is work. To do so is another example of counterproductive behavior. Eventually, when all you have left is work, even that will begin to suffer.

Dr. Robert H. Schuller, famed TV evangelist and proponent of "possibility thinking", tells this story about sacrifice and self confidence: A supersuccessful California multimillionaire started his manufacturing and marketing business by selecting a small team of bright men.

He explained the tremendous opportunity in his idea to them. He promised them good salaries, the opportunities to be creative, and shares in the financial success of the company. He offered all this on one condition - that they invest all their money in the new company.

One of the men objected. So, the job for which he'd been selected wasn't offered to him. The others went along - and became millionaires.

When we refer to sacrifice, remember, we're talking about TOTAL DEDICATION.

Don't fool yourself about the degree of sacrifice required to qualify as "total dedication". (You'll know it when you're doing it.)

And don't overlook the effectiveness of dedication, either.

A famous inspirational speaker on the subject of motivation says: "Show me a man with a consuming dream coupled with a deep, unshakable faith and I will show you a champion - a mountain mover."

Michael Korda, in his best-selling book Success, writes: "Desire, determination, and a good sense of timing are common denominators of success - of far more importance than any other factors."

Tommy Van Scoy, a small-town jeweler, became a mountain mover. He had operated a jewelry store successfully for 25 years. But, he wanted to grow. To do so, he knew he needed to sell better merchandise for less money - like the chain stores.

So, he decided to increase his volume, buy in larger quantities, and then obtain greater discounts from suppliers so he could sell for less - like the chain stores.

In 1977, he began specializing in diamonds, built up his capital, and used it to buy diamonds directly from importers in New York for half the price he had paid his wholesalers. Volume increased - and soon, the importers were coming to HIM. He was approached by a representative of Israeli diamond cutters, and eventually, he bought all his diamonds directly from the Israeli diamond cutters for one-fifth what he had paid the wholesalers.

John H. Johnson, editor and publisher of Johnson Publishing Co. (who publishes several magazines for the black minority), and board member for many large corporations, says this:

> "Success in business is a time-honored process involving hard work, risk taking, money, a good product, a little bit of luck, and, most all, **a burning commitment to succeed.**"

Johnson says that at first **Ebony** magazine was all he had. If he did not succeed with it - he thought - failure would destroy his life. From this belief, he acquired a total commitment to success.

To be dedicated, you must be motivated. Some people "multiply the levels of motivation", as professional motivators say, to keep themselves going, constantly pointing out the benefits to themselves of doing something essential and worthwhile.

BENEFITS.

Rewards of Dedication and Sacrifice

In his book Korda writes: "If we are going to work at all, and most of us have to, we might just as well become rich, successful, and famous in the process."

658

Sy Merns, son of Russian immigrants, took his company public in 1983 and cashed in $35 million of the amount he received from selling personal stock. He had spent many grueling years guiding his company, Syms Corp., a Lyndhurst, NJ, off-price apparel chain, to its successful public offering.

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In 1983, 302 entrepreneurs made more than $10 million each when the value of their stock soared after they took their companies public.

By the way, don't let yourself envy the dedicated, successful people in your field who reap the rewards of their dedication. Instead, TRY TO BE LIKE THEM and you will improve a hundredfold the chances that you, too, will be successful.

If you've got the best team, you'll win, too. With preparation, persistence, knowledge, follow-through, hard work, character, good physical and mental condition, self-esteem, faith, and enthusiasm on your side, you won't have to worry about losing in the end.

Sure, you may lose some games. You may get knocked down by a big linebacker once in a while. But, if you pick yourself up and hit into the line repeatedly, **you will win** in the end.

Even though you don't win every game, you WILL win the seasonal championship. And that's what counts - **who's ahead at the end of the season.**

One very successful entrepreneur is fond of saying that he doesn't mind losing nine out of ten times. He has learned from experience that he wins big enough that 10th time to more than balance his losses from the other nine attempts - a result that he credits to perseverence.

PERSISTENCE

"Victory belongs to the most persevering," wrote Napoleon. He knew.

Henry David Thoreau, who lived alone at Walden Pond in Massachusetts for two years, expressed the spirit of persistence somewhat crudely, but his meaning was clear: "Do what you love. Know your own bone; gnaw at it, bury it, unearth it, and gnaw it still."

"Gnaw your own bone." Perhaps that admonition, applied to entrepreneurs, means one should take up a business that he is familiar with - or GET familiar with, fast.

Thoreau, by the way, gave a lot of guidance to entrepreneurs in his famous book, **Self-Reliance**. In that book he wrote: "...if one advances confidently in the direction of his dreams, and endeavors to live the life which he has imagined, he will meet with a success unexpected in common hours."

Apply Thoreau's principles, and winning will simply be the logical result of continuous effort. If you continue to TRY, one day you'll look up and the goal line will be right there under your nose - and you will SCORE.

Ed Lowe of Cassopolis, Michigan, was selling sawdust and dried clay to garages for soaking up oil when he got a multi-million-dollar idea - Kitty Litter, a product name that he coined. His first bags of Kitty Litter were mistaken for a new cat food, though, causing mass feline indigestion. And, pet shop owners laughed: After all, cats had always been let out the door to scratch in the sand.

But, Ed Lowe persisted.

To shop owners who scoffed at his Kitty Litter he said: "So, give it away."

They did. Soon, customers were coming back.

He'd call on pet shops with a box of Kitty Litter under his arm and a shot glass in his pocket. He would poke a hole in the

660

Kitty Litter with his finger, pour a shot glass of water into it, and deliver his sales pitch while the liquid soaked in.

Lowe would leave the box and shot glass behind so the pet shop owner could put on the same show for HIS customers.

He spent many days at cat shows doing nothing but cleaning out cat boxes and replacing contents with Kitty Litter, in return for a free booth. (THAT's dedication.)

Even with his creative salesmanship, Lowe's first-year sales amounted to only $500.

Later, he was caught napping when a giant company came out with a kitty litter made of alfalfa pellets. He lost most of the market.

But, he persisted.

Now he has 43 percent of the market in a $250 million industry. He lives in luxury on a 2,600-acre Michigan estate and winters at a home in Sarasota, Florida.

Persistence is next to greatness.
Persistence is magic!
Patience and persistence are the marks of a champion -
a winner.

Fate seems to be impressed by persistence. When life is darkest, the protagonist plods on, shoulders hunched in a fighting posture. He is often flabbergasted by unexpected and sudden success. The help he needs, the person he needs to help him, the idea that's essential to the solution to a major problem, a stroke of luck - it seems to happen as if on cue.

The cue is persistence.

Consider this sorry record of a persistent man who eventually triumphed:

Failed in business, '31.

Defeated for legislature, '32.

Failed in business, '33.

Elected to legislature, '34.

Suffered nervous breakdown, '36.

Defeated for speaker, '38.

Defeated for elector, '40.

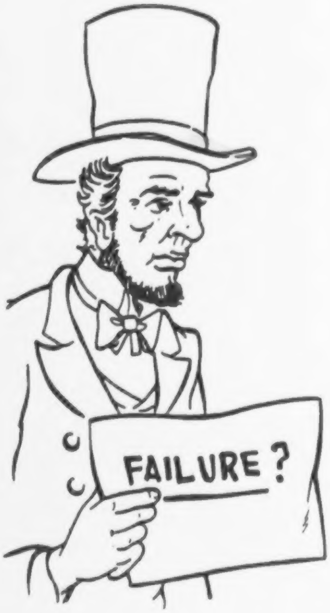
Elected to Congress, '46

Defeated for Senate, '55.

Defeated for Vice President, '56.

Defeated for Senate, '58.

Elected President, '60.



This man who suffered repeated failure was...Abraham Lincoln.

Many a successful person has achieved success at precisely the moment that he or she was sure that failure was certain...because he or she **persisted.**

Thomas Alva Edison tried 10,000 combinations of ideas and materials before he found the combination that made the first successful light bulb.

Successful people persist until they succeed or until they realize that the cost in terms of time, energy, and money of pursuing a goal is more than success would be worth.

Stubbornness

One form of persistence is stubbornness - coming back for more even when it looks as if you're beat. It's as if you were one of those life-size, blow-up clowns with the weighted bottom: You whack it, it falls to the floor, but it springs up again, every time...smiling!

Winston Churchill, the inspirational bulldog Prime Minister of Britain during WW II, was like that. He propped up the morale of a nation with attitudes such as the one expressed when he said: "Never give in! Never give in! Never, never, never, never - in nothing great or small, large or petty, never give in except to convictions of honor and good sense!"

Dr. Schuller says: "You **never** quit, you simply **adjust.** You may revise your time schedule. You may scale down the size of your plans. You may rearrange your resources. But you will **NEVER** quit!!"

Stubbornness. It's not always bad to be stubborn when you have a good idea and you are certain that you are the best person to make it work.

Persistence and stubbornness often are justified because you are never defeated **in your own mind** until you QUIT. There is no hopeless situation - just people without hope.

To buoy your hope, to motivate yourself to be persistent, wear a coat of armor as you fight life's battles. Wear a strong ego.

The slings and arrows of disappointment aimed at you will bounce off.

Ed Lowe believes that lack of persistence is the MAIN cause of failure in business.

"Unless you happen to hit a bonanza," says Lowe, "a business will take six or eight months just to reach the breakeven point.

"To get a business like a small manufacturing plant or a retail store over the hump, and to start making an annual income in the $25,000 to $100,000 range, takes four to five years, usually.

"You've got to have faith. Oh, brother, do you have to have FAITH!" Lowe says.

Make that "Persistence".

Persistence precedes the spring. The winter was long and lonely. Your mood was sometimes black, and you couldn't even visualize sunshine and green grass anymore. But then the first warm day dawned, the black cloud became a pink cloud of joy; and you couldn't even remember being gloomy. When you raised your head you could see FOREVER.

Wouldn't it be a shame to quit just before the first rose of springtime?

If You Refuse to Quit, You Can't Be Beat

Even if you fail occasionally, you can turn failure into success as long as you do not admit defeat. NEVER admit defeat.

Some of the business ventures of Ed Lowe, the Kitty Litter King, failed. ("Actually," says Lowe, "the businesses just 'didn't succeed'." Lowe never admits defeat.)

"There's nothing wrong with failing," he says, "as long as you've got the guts to go on."

The moral is: **Do your very best every day,** as your daddy taught you, and you'll be able to hold your head up high, no matter WHAT happens. What may happen, by the way, may well be success.

Barbra Streisand, singer and actress, has apparently inexhaustible energy. She has a reputation for going to the limit in everything she does. Barbra's been known to work 24 hours straight to prepare a one-hour television show. The benefit, she says, is the satisfaction that she has given the best performance she was capable of.

INSPIRATION follows PERSPIRATION.

Remember that success is just the flip side of failure. Try long and hard enough and failure often BECOMES success.

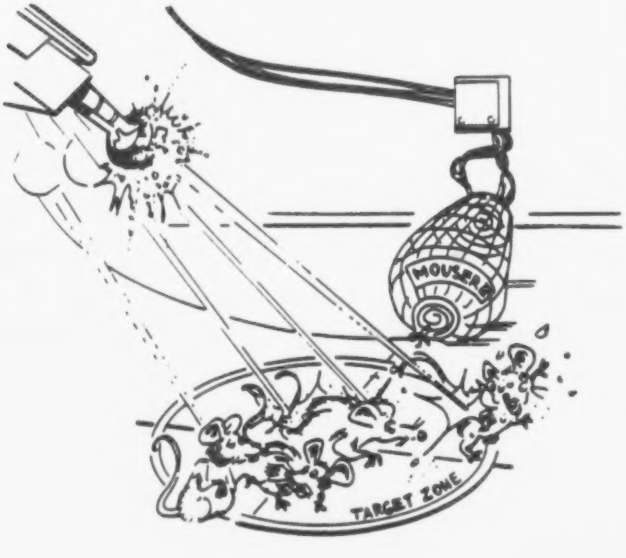
Try, try again.

There's a lot to be said for the idea that says to succeed, you've got to fail. The more often you fail, some say, the closer you get to success.

To keep your chances alive, just make sure that you learn from your failures. A fairy tale Indian said: "White man fool me once, shame on white man. White man fool me twice, shame on Indian."

Says Korda: "Failure has its positive points. It provides you with a pause during which to assess your motives, your abilities, and your opportunities. Failure teaches you far more than success ever can, if only because failure sharpens the survival instincts and forces you to learn your business in depth and detail.

"Failure is the best school for success. There is nothing like it for hardening the will and maturing the personality."



Joel Sugarman is a big success now. He is the president and creative driving force behind JS&A Products. He began the business in his basement and it now occupies a new building in suburban Chicago.

But, there was a time when he couldn't even sell a mousetrap. Here is the story. He took literally the old adage: "Build a better mousetrap and the world will beat a path to your door." He BUILT A BETTER MOUSE TRAP - a trap that zapped mice with a laser beam, yet.

However, the world did NOT beat a path to his door.

He placed a quarter-page ad in the **Wall Street Journal**. But, he didn't sell a single mousetrap. He DID learn a lot that he applied to future endeavors, however - as proven by his present success.

Failure is part of life. It certainly is part of **selling.** Good salesmen learn to take rejection (failure) in stride. They aren't afraid of calling on prospects just because the customer might say "No." They hear that all the time; but they aren't paralyzed by fear. Rejection, to them, is **part of the job,** as it should be for any entrepreneur.

Failure is only a temporary setback for a persistent person.

Enthusiasm

Enthusiasm is the spark for persistence.

Successful entrepreneurs almost glow with confidence and enthusiasm. They project a positive self-image. They believe that they are winners, so they usually are -- an example of a type of self-fulfilling prophecy.

They act like winners, and others **expect** them to be winners - so they are treated like winners.

Be ENTHUSIASTIC. If you don't feel enthusiastic sometimes, well...ACT enthusiastic. It's a way to **generate** enthusiasm.

Enthusiastic people enjoy life. They enjoy their jobs, their families, their recreational activities. Whenever they tackle something, they tackle it with gusto. They enjoy whatever they do whenever they do it.

To whip up enthusiasm for your business, set reasonable, realistic goals - long-term and short-term goals. Once you achieve them, then set new goals. Goals are motivational.

One female entrepreneur, in writing her goals, wrote: My long range personal goals are to achieve a position of power and authority through my business with which I can make an impact on my community."

In their book, **Minding My Own Business,** Marjorie McVicar and Julia Craig wrote: "Goals are the essence of success. A written goal is the passport that sends you on your way. Without a goal, your movement is sideways. You shuffle to the left, shuffle to the right, always waiting until..."

An entrepreneur's goals should incorporate the **reason** that she or he wants her/his business. Why not work for somebody else? A clear answer to that question can be very motivational. In fact, the satisfaction and pleasure that one derives from doing exactly what he wants to do working for himself or herself is the entrepreneur's SECRET WEAPON - an advantage over people who work for somebody else.

To emphasize the importance of goal-setting, one business motivator gives an annual Christopher Columbus Better Leadership Award to **failures.** He chose the name of the award by reasoning that Christopher Columbus was a man who started out not knowing where he was going, didn't know where he was when he arrived, and couldn't describe where he'd been upon returning.

THE ADVENTURE OF ENTREPRENEURING

Entrepreneuring is exciting. The possibilities that lie before you are limited only by your imagination.

Making a real, day-to-day experience out of a dream: That's exciting! Reaching a goal that, in your private moments, you had, sometimes, for just an instant, despaired of ever reaching - that is exciting!

Starting a new business is one of life's most stimulating challenges. Succeeding is one of life's most satisfying accomplishments. THIS is what you are fighting for. It is a worthwhile endeavor.

A very good case can be made for the assertion that challenge is what makes life worth living. The pleasure and satisfaction that come from doing the difficult, from achieving goals that few can achieve, is what makes life more than just a survival game.

Many a successful person has said that life was never so stimulating as when challenge after challenge was being met and overcome.

William J. Benzick of St. Paul faced such a challenge and won. He started Best Food Services in 1975 with no customers. Now his food service management and catering firm services forty locations and employs 285 people. In 1983 he was named Minnesota Small Business Person of the Year.

Self Confidence: A Result of Meeting Challenges Successfully

Accepting a challenge, then proving to yourself that you have the character needed to cope with it, is a great confidence builder.

Another way to develop self confidence is to take chances, and to succeed.

It was hard at first, and far from a certain success since neither one of them had experience in mail order, but Claude and Donna Jean Jeanloz of Miller's Falls, Massachusetts, enjoyed working together and making tangible progress every day.

They took a chance. They committed $50,000 to the printing of a catalog of hard-to-find household fixtures, hardware and ornaments. They mailed it to 27,000 prospects.

From 1978 to 1982 they grew to 93 employees and to sales of $5 million.

The Excitement of Challenge

Many entrepreneurs find day-to-day challenges exciting in themselves. So, maybe they can't point to a significant success every day. But, they get a thrill out of just DOING the daily "chores" for **their own business**. The thrill stimulates them to perform at peak efficiency. What's more, knowing that they are functioning well is a thrill in itself.

Charles Dickhoff of Eau Claire, Wisconsin, starts new businesses just for the challenge in it. When a new business becomes successful, he often sells it and uses the proceeds to start another business.

Why?

"I enjoy the challenge," he says.

Korda feels that the key to success is to feel that your work is "play." You are doing it because it is the best game in town - the only one at which you can get paid for doing what is fun.

"Your chances of success are directly proportional to the degree of pleasure which you derive from what you do," he says, unequivocally.

"Success is a game," says Korda. "You play it with deadly seriousness at first. But, once you are on your way, you have to stand away from it from time to time to see just how much fun it is. You get relaxed about it when you do. There's a moment when it becomes purely a game. And when you reach that moment, you've made it, and nothing can stop you!"

IT IS HONORABLE TO TRY

Clench your fist, grit your teeth and refuse to take "No" for an answer - even when you harbor a little doubt about the outcome. That takes guts; and courage is something you can be proud of. It's also what you need to succeed in business.

When you are courageous, when you DARE to be successful - voila! - unshakable faith in the certainty of your success assumes control of your thinking. You feel...**powerful.** And there's nothing evil about power as long as you keep it working toward honorable, productive ends.

A Sense of Power

A sense of power is the gift of courage.

"A man of courage is also full of faith," wrote Cicero, the Roman philosopher and politician.

Ovid, a Roman poet born the year Cicero died, would have said that a courageous person is **justified** in feeling confident about the outcome of his efforts. Ovid wrote: "Fortune and love befriend the bold."

If you have the character to wrestle your doubts to three falls and then step over them into a dark room filled with lurking liabilities, calculating competitors, misery-making mistakes, bad luck, and economic sneak punches...why, then you have ALREADY WON. Faith in the certainty of success, and the cool determination that success requires, are awaiting you just beyond the lighted door.

Don't procrastinate from starting a business until the unlikely day when you will have a 100 percent chance of success. Frequently, if you hold back until you feel there is no way you can fail, that's what you'll do...fail.

In his book entitled **Getting Yours,** Thomas K. Connellan writes: "There is no such thing as a perfect moment. If you wait for it, you'll wait forever."

Very often, you will not succeed unless you just seize the moment and...try.

Sometimes, you won't learn to do something until you do it.

Of course, you should prepare. However, when you are as ready as you're ever going to be...leap! Jump in the lake. Chances are good that you will **learn to swim...quickly!**

James Walters faced far less than a sure bet when he quit his job with a huge corporation at 46 to start a new business manufacturing and selling a computerized pari-mutuel wagering system, a "totalizer" that he had built in his garage.

He quickly learned about such things as bad luck and economic sneak punches.

First punch: Financial institutions wouldn't loan him money; so he had to raise start-up capital from friends. He did it.

Second punch: He ran out of money while manufacturing computers to fill his first big order. He had to get an advance from his customer, or fold.

He got the advance.

He had to go public to raise the necessary capital to land an order from The Royal Hong Kong Jockey Club. The order, to produce 1,500 off-track betting terminals, was the largest in the history of Walters' industry. For him, it was an "all or nothing" situation.

It took courage. He knew very little about the mechanics of a public stock offering, but he gave it the old college try.

And he did it.

Now, Walters has multiplied his initial $35,000 personal investment into $2.5 million.

EXPECT SUCCESS

The mood, the mental tone that the expectation of success generates in itself **PROMOTES** success.

Practice pausing, mentally, as you prepare to leave for work each day and think: "Something wonderful is going to happen today."

The THOUGHT actually promotes the expected result.

There's a reason why "positive thinking" as a philosophy of life has hung around for so long: It works. It generates confidence and enthusiasm.

Dr. Peale, who wrote a book entitled **Positive Thinking,** described a positive thinker: "A positive thinker does not refuse to recognize the negative. He refuses to **dwell on it.** Positive thinking is a form of thought which habitually looks for best results from worst conditions...it is possible to expect the best for yourself even though things look bad.

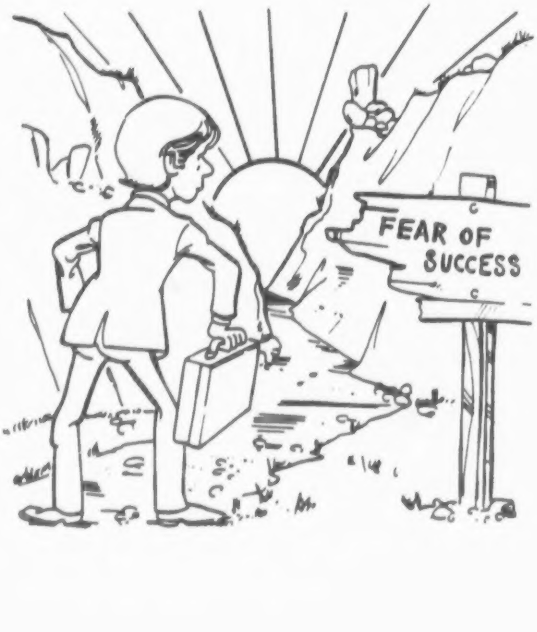
"The remarkable fact," he says, "is that if you seek good, you are very likely to find it.

"Don't ever let yourself get caught in the trap of remembering all the reasons why you can't succeed. Sure, every single human on the face of the earth can come up with a list of reasons why he or she might fail. The winners among them are those who are fully aware of their faults, all right, but who disregard them and build upon their STRENGTHS - their positives - instead.

Of course, you can work on eliminating your faults at the same time you are busy being successful. Said St. Francis de Sales: "Do not lose courage considering growing imperfections, but instantly set about remedying them."

Make very sure that you are not unconsciously sabotaging yourself with FEAR of failure.

Korda writes about the fear of **success:** "...the fear of success ...is...an enormous obstacle because success implies change and change is frightening. People build comfortable, predictable lives around failure. They are reluctant to give up its assurance and familiarity much as people with a physical complaint often are unwilling to have it cured."



Are you **willing** to succeed?

Ask yourself that question sometime when you are finding success difficult to achieve.

Korda, in his book **Success**, writes: "You have a right to succeed. Your chances of succeeding are probably just as good as anyone else's - and they are almost certainly better than you think they are."

"The people who succeed," says Korda, "do not, as a rule, work all that much harder than people who fail. In some cases, they work very much less hard. They have simply mastered the rules of success."

Korda says that it helps to convince yourself that what you want is OK - that your goals are OK. Success, he says, should be considered a perfectly natural and happy condition, and you shouldn't feel guilty about it.

Tell yourself, he says, that it's OK to look out for number one. It's OK to be a winner. It's OK to be rich. It's OK to be ambitious. And it's also OK to have a good time doing it.

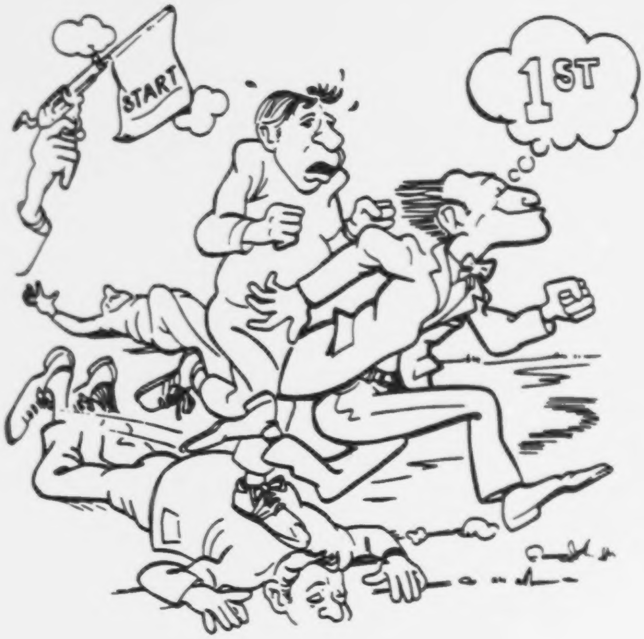
It never occurred to Ron James of San Diego that his custom silk-screened T-shirt business might fail, even though he started from ground zero. He spent $89 of his last $100 on a small silk screening machine, bought $6 worth of gas and set out to challenge fate.

In seven years he built his business from a first sale of two dozen T-shirts for $96.40 to a business with 5,000 clients and annual sales of $1 million. From a ramshackle 10' x 12' space in 1976, his business has grown to three retail outlets covering a total of more than 10,000 square feet.

Ron James doesn't need to be told to cultivate the habit of optimism. He already knows its value.

Visualize Success

Dr. Maxwell Maltz, famed author of **Psycho-Cybernetics**, proved a theory now being used by U.S. Olympic teams: Visualizing yourself succeeding, imagining the emotions and the actions that accompany success, is a tremendous aid in the pursuit of success - in sports or in any other endeavor. Actually **succeeding** in your mind is identical, as far as your nervous system is concerned, to succeeding in reality.



Visualizing success, as if it really happened, promotes success by endowing you with confidence and enthusiasm.

Visualizing success gives you the attitude and the sure and steady skills of a winner.

Very often the ONLY element missing from the character of an entrepreneur who does not succeed is the unshakable anticipation of success found in the character of the entrepreneur who does.

You ARE What You Think

Remember: You ARE what you think.

"Every man is the architect of his own fortune," says an old English proverb.

If there's any truth in that proverb, then it's only smart to be the best architect you possibly can be - and BELIEVE that you are.

"For they can conquer who **believe** they can." (Virgil)

"Whatever you can do or dream that you can do, do it.
Boldness has genius, power and magic in it." - Goethe

You Cannot Fail

There is no such thing as **failure**. One who is determined and prepared will succeed, now or later, but he WILL succeed - unless he doesn't try hard enough. Inadequate effort is the only mortal sin of entrepreneuring and one of the few certain ways to assure failure.

Vow here and now that if you don't make it this time, it on't be because you didn't TRY hard enough!

If you prepare sufficiently, if you have strong character, if you give the enterprise your best effort, you will lose only to circumstance beyond your control - and THAT is nothing to be ashamed of. Some of the noblest men of the ages have lost to circumstances beyond their control...temporarily. But, they, like Abraham Lincoln, were named "winners" by history in the end.

If something doesn't work out, think in terms of "postponement" and "regrouping". Don't use the self-defeating word "failure". THERE IS NO SUCH THING AS FAILURE FOR ONE WHO REFUSES TO GIVE UP.

To bolster your determination to succeed, try this mental exercise, visualizing each step: I am confident I have made the RIGHT decision. THIS is where I'm going to make my stand.

I have worked hard to get where I am today. I have paid my dues. I **deserve** to succeed.

No one is making this decision for me. I don't **need** to be told what I'm capable of doing. Just like I don't need to be told when to report for work, or when I can leave, or when I can take vacations, or how much money I can make.

After all, that's why I want to run my own show...be my own boss.

This is a decision I am making...for **me**, for my **family**, for my **future**.

I have considered the **cost** in terms of time, effort and commitment; and I have considered the **rewards** in terms of freedom, pride and potential wealth. Whatever the cost, the rewards are worth **everything** I put into my business.

I am prepared to take a few risks.

I know I have reduced those risks by studying this manual.

With so little to lose, and so **much** to gain, I am ready right now to take that step of faith onto the pathway to **success.**

I am determined to do my level best...and my best WILL be good enough.

I will **not** fail, because I will never quit. Never. Never! NEVER!!!!

There's no turning back. I am committed to that bright burning star in my future.

I **want** to be a winner. I MUST succeed.

I WILL SUCCEED!!!!

AND NO POWER ON EARTH IS GOING TO STOP ME!

American Institute of Small Business
7515 Wayzata Blvd., Suite 201
Minneapolis, MN 55426 (612) 545-7001

Transparencies to accompany
HOW TO SET UP YOUR OWN SMALL BUSINESS
Textbooks for Classroom Instruction

Introduction - Chapter 1

- Setting Up Your own Business Successfully
- Profile of a Successful "Entrepreneur"
- Why People go into Business
- Why Businesses Fail
- What makes a Successful Entrepreneur

Site Selection - Chapter 4

- Making Your Business a Success
- Knowing Your Product or Services
- Knowing Your Market
- Knowing Your Competition

Financing - Chapter 5

- Cash Flow Statement (Frank's Snow Plowing etc.)
- Service Equipment Needs (Frank's Snow Plowing etc.)
- Loan Proposal Table of Contents
- Financing a Business (2)

Advertising - Chapter 8

- Advertising: Spreading the Word
- Annual Advertising and Sales Promotion Plan (2)
- Preparing Advertisements

-OVER-

Publicity - Chapter 9

Public Relations & Publicity

PR Activity Schedule

Bookkeeping - Chapter 11

Accounting and Bookkeeping Functions

Accounting Statements

Purchases Journal

Cash Journal

Accounts Receivable Journal

Trial Balance Worksheet

Operating Statement for June

Accounting - Chapter 12

Operating Statement

Balance Sheet

Adjusted Operating Statement

Adjusted Balance Sheet

Business Plan - Chapter 18

The Business Plan

Planning Worksheet

Planning Worksheet (with answers)

Guidelines for Successful Planning

Quotes:
"Hazy goals produce hazy results...."
"Wishing will not bring success..."
"You can always better your best..."
"Defeat may test you..."
"To accomplish great things..."

"TO ACCOMPLISH GREAT THINGS, YOU MUST NOT ONLY ACT, BUT ALSO DREAM; NOT ONLY PLAN, BUT ALSO BELIEVE. IF YOU HAVE BUILT CASTLES IN THE AIR, YOUR WORK NEED NOT BE LOST–PUT FOUNDATIONS UNDER THEM. YES, YOU CAN. BELIEVING IS MAGIC."

QUOTATIONS

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"DEFEAT MAY TEST YOU; IT NEED NOT STOP YOU. IF AT FIRST YOU DON'T SUCCEED, TRY ANOTHER WAY. FOR EVERY OBSTACLE THERE IS A SOLUTION. NOTHING IN THE WORLD CAN TAKE THE PLACE OF PERSISTENCE. THE GREATEST MISTAKE IS GIVING UP."

"YOU CAN ALWAYS BETTER YOUR BEST. YOU DON'T KNOW WHAT YOU CAN DO UNTIL YOU TRY. NOTHING WILL COME OF NOTHING. IF YOU DON'T GO OUT ON A LIMB, YOU'RE NEVER GOING TO GET THE FRUIT. THERE IS NO FAILURE EXCEPT IN NO LONGER TRYING."

QUOTATIONS

"WISHING WILL NOT BRING SUCCESS, BUT PLANNING, PERSISTENCE AND A BURNING DESIRE WILL. THERE IS A GOLD MINE WITHIN YOU FROM WHICH YOU CAN EXTRACT ALL THE NECESSARY INGREDIENTS. SUCCESS IS AN ATTITUDE. GET YOURS RIGHT."

"HAZY GOALS PRODUCE HAZY RESULTS. CLEARLY DEFINE YOUR GOALS. WRITE THEM DOWN, MAKE A PLAN FOR ACHIEVING THEM, SET A DEADLINE, VISUALIZE THE RESULTS AND GO AFTER THEM. JUST DON'T LOOK BACK UNLESS YOU WANT TO GO THAT WAY."

GUIDELINES FOR SUCCESSFUL PLANNING

1. PLANNING IS A PROBLEM-SOLVING PROCESS.

2. PLAN MUST BE FLEXIBLE, AS SITUATIONS CHANGE.

3. PLANS MUST REFLECT REALITY.

4. PLANS SHOULD REFLECT THE SKILLS AND KNOWLEDGE OF THE IMPLEMENTERS.

5. PLANS SHOULD STATE SPECIFIC WAYS TO ACHIEVE THEM.

6. PLANS MUST BE COMMUNICATED TO PERSONS AFFECTED.

PLANNING WORKSHEET

GOAL: Sell 400 units at 35% profit margin by end of year

DATE:

OBJECTIVES:
1. Hire and train one additional salesperson
2. Increase profit margin 5%
3. Expand storage capacity 50%
4. Secure 500 additional sales leads by Jan. 3

PRIORITY	ACTION (TASKS)	DUE DATE	RESPONSIBLE PERSON	RESULTS
2	1. Place "Help Wanted" ads	9-24	Bill H.	Two ads placed; 27 applicants
1	2. Screen and hire salesperson	10-15	George M.	Gail B. hired 10-10
1.	3. Conduct training program	11-30	George M.	Training completed on time.
2.	2. Study feasibility of price increase	10-3	Mary J.	Feas. study positive. Report delayed two weeks. See Com.
1	3. Renegotiate unit cost with supplier	11-1	George M.	Completed 11-1. Need 200 more units for 5% price break
3	4. Add shelving to store rm.	12-1	Hank P.	Completed 11-24. Capacity up 60%
1	1. Revise and increase ad budget	9-24	Bill H.	Revisions approved 9-22
2	2. Order advertising space	10-15	Bill H.	Delayed until 10-22 due to art lost in mail.

COMMENTS
Mary J. hospitalized 9-24. Function assumed by Bill H.
Three suppliers interviewed re-price. No deal.
Ads produced 623 leads. Turned over to Gail. Sold 421 Units!

BUSINESS PLAN 18-16

PLANNING WORKSHEET

GOAL:

DATE:

OBJECTIVES: 1.
2.
3.
4.

PRIORITY	ACTION (TASKS)	DUE DATE	RESPONSIBLE PERSON	RESULTS

COMMENTS

BUSINESS PLAN 18-8

THE BUSINESS PLAN

Your Business Concept

Products and Services

Marketing Strategy

How to Reach The Market

Necessary Personnel

Necessary Equipment

Financial Plans

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ED ENTREPRENEUR – ADJUSTED BALANCE SHEET
AS OF DECEMBER 31, 1987

ASSETS

CASH IN BANK	4,428.00
ACCTS. RECEIVABLE	900.00
INVENTORY	440.00
MACHINERY	14.000.00
LESS: ACCUM DEPN	(2,100.00)
TOTAL ASSETS	17,668.00

LIABILITIES

COMM. PAYABLE	90.00
BANK LOANS	18,343.00
TOTAL LIABILITIES	18,433.00

OWNER'S EQUITY

CAPITAL PAID IN	350.00
CURRENT EARNINGS	2,885.00
LESS: CURR DRAWS	(4,000.00)
TOTAL EQUITY	(765.00)
TOTAL LIABS+EQUITY	17,668.00

ED ENTREPRENEUR – OPERATING STATEMENT
YEAR ENDING DECEMBER 31, 1987

REVENUES:		
SALES OF 285 WIDGETS	28,500.00	
LESS: 3 RETURNS	300.00	
NET SALES		28,200.00
LESS: COST OF GOODS SOLD	3,420.00	
GROSS PROFIT		24,780.00
EXPENSES:		
SALES COMMISSIONS	1,550.00	
TOOLS & SUPPLIES	95.00	
DEPRECIATION & SEC. 179	12,100.00	
SHOP RENT	6,325.00	
BUILDING RENT	750.00	
INTEREST EXPENSE	475.00	
ACCOUNTING SERVICES	600.00	
TOTAL EXPENSES		21,895.00
NET INCOME:		2,885.00

ED ENTREPRENEUR – BALANCE SHEET
AS OF DECEMBER 31, 1987

ASSETS

CASH IN BANK	4,428.00
ACCTS RECEIVABLE	900.00
INVENTORY	440.00
MACHINERY	24,000.00
LESS: ACCUM DEPN	(800.00)

LIABILITIES

COMM. PAYABLE	90.00
BANK LOANS	18,343.00
TOTAL LIABILITIES	18,433.00

OWNER'S EQUITY

CAPITAL PAID IN	350.00
CURRENT EARNINGS	14,185.00
LESS: CURR DRAWS	(4,000.00)
TOTAL EQUITY	10,535.00

TOTAL ASSETS	28,968.00	TOTAL LIABS & EQUITY	28,968.00

ED ENTREPRENEUR – OPERATING STATEMENT
YEAR ENDING DECEMBER 31, 1987

REVENUES		
SALES OF 285 WIDGETS	28,500.00	
LESS: 3 RETURNS	300.00	
NET SALES		28,200.00
LESS: COST OF GOODS SOLD	3,420.00	
GROSS PROFIT		24,780.00
EXPENSES		
SALES COMMISSIONS	1,550.00	
TOOLS & SUPPLIES	95.00	
DEPRECIATION	800.00	
SHOP RENT	6,325.00	
BUILDING RENT	750.00	
INTEREST EXPENSE	475.00	
ACCOUNTING SERVICES	600.00	
TOTAL EXPENSES		10,595.00
NET INCOME		14,185.00

ACCOUNTING 12-3

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ED ENTREPRENEUR - OPERATING STATEMENT FOR JUNE

REVENUES:

SALES OF 35 WIDGETS	3,500.00	
LESS: RETURN OF 1 WIDGET	-100.00	
NET SALES		3,400.00

EXPENSES:

COST OF GOODS SOLD	430.00	
TOOLS	0.00	
SHOP RENTAL	1,200.00	
TOTAL EXPENSES		1,630.00

NET INCOME:	1,770.00

ED ENTREPRENEUR - TRIAL BALANCE WORKSHEET ENDING MAY 31

ACCOUNT TITLE	OPENING		ADJUSTMENTS		CLOSING	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
SALES				2,000.00		
MATERIALS			300.00			
TOOLS			50.00			
SHOP RENT			750.00			
NET INCOME			1100.00	2,000.00		
CASH	0.00		1,200.00	1,100.00	100.00	
ACCTS REC	0.00		2.000.00	1,200.00	800.00	
ACCTS PAY		0.00	0.00	0.00		0.00
OWNER'S EQUITY		0.00	1,100.00	2,000.00		900.00
TOTALS	0.00	0.00	4,300.00	4,300.00	900.00	900.00

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ACCOUNTS RECEIVABLE JOURNAL

DATE	IN ACCOUNT WITH	DESCRIPTION	REF	DR. AMT.	CR. AMT.
5/20	DOCTOR #1	SALE ON ACCT	101	100.00	
5/20	DOCTOR #2	SALE ON ACCT	102	100.00	
5/20	DOCTOR #3	SALE ON ACCT	103	100.00	
5/20	DOCTOR #20	SALE ON ACCT	120	100.00	
5/22	DOCTOR #1	RECD ON ACCT	101		100.00
5/24	DOCTOR #2	RECD ON ACCT	102		100.00
5/24	DOCTOR #3	RECD ON ACCT	103		100.00
5/31	DOCTOR #12	RECD ON ACCT	112		100.00
5/31	MONTH TOTALS			2,000.00	1,200.00

CASH JOURNAL

DATE	NAME	DESCRIPTION	REF.	DR. AMT.	CR. AMT.
5/10	JONES STEEL	MATERIALS	3012		300.00
5/10	SMITH MACH TOOL	TOOLS	3013		50.00
5/22	DOCTOR #1	RECD ON ACCT	101	100.00	
5/24	DOCTOR #2	RECD ON ACCT	102	100.00	
5/24	DOCTOR #3	RECD ON ACCT	103	100.00	
5/29	DOCTOR #11	RECD ON ACCT	111	100.00	
5/30	GEORGE	SHOP RENT	3025		750.00
5/31	DOCTOR #12	RECD ON ACCT	112	100.00	
5/31	MONTH TOTALS			1,200.00	1,100.00

PURCHASES JOURNAL

DATE	PURCHASED FROM	DESCRIPTION	REF.	MAT'LS	TOOLS	RENTAL
5/10	JONES STEEL CO.	STEEL	3012	250.00		
5/10	JONES STEEL CO.	BOLTS,RIVETS	3012	50.00		
5/10	CUTTERS, BITS	SMITH MACH TOOL	3013		50.00	
5/30	GEORGE	SHOP RENTAL	3025			750.00
5/31	MONTH TOTALS			300.00	50.00	750.00

ACCOUNTING STATEMENTS

1. PURCHASES JOURNAL
2. SALES JOURNAL
3. INVENTORY CONTROL JOURNAL
4. ACCOUNTS RECEIVABLE
5. CASH JOURNAL
6. TRIAL BALANCE WORKSHEET
7. ACCOUNTS PAYABLE LEDGER
8. BALANCE SHEET
9. PROFIT AND LOSS STATEMENT

ACCOUNTING AND BOOKKEEPING FUNCTIONS

DOCUMENTING

RECORDING

ORGANIZING

DEVELOPMENT OF REPORTS

BOOKKEEPING 11-3

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PR ACTIVITY SCHEDULE

Activity	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Grand Opening Publicity	X										
Grand Opening Event		X									
Special Offer Publicity		X									
Sponsor Block Party - Publicity					X						
Open House						X					
July 4 Sale Publicity											
Photo Contest								X			
Winning Photos to Newspapers									X		

PUBLIC RELATIONS
&
PUBLICITY

IMAGINATIVE

CREATIVE

PRODUCTIVE

707

PUBLICITY 9-1

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PREPARING ADVERTISEMENTS

I. SPECIFIC PRODUCTS OR SERVICES

II. THEME

III. ADVERTISEMENT COMPONENTS

1. HEADLINE
2. COPY
3. ILLUSTRATION
4. ART WORK
5. TYPE STYLE
6. COLOR
7. WHITE SPACE
8. SIGNATURE
9. LAYOUT

AUGUST: Back To School

SEPTEMBER: Sport Shoes For Keeping Fit

OCTOBER: Football Fantasy Days

NOVEMBER: Anniversary Sale

DECEMBER: Christmas

ANNUAL ADVERTISING AND SALES PROMOTION PLAN

JANUARY: January Clearance Fun In The Sun Sale

FEBRUARY: President's Day

MARCH/APRIL: Spring Sale Easter Fashions

MAY: Yard, Garden, and Home Sale

JUNE: Summer Values

JULY: Sidewalk-Crazy Days Sale

ADVERTISING: SPREADING THE WORD

Promoting Your Products

Promoting Your Services

Stimulate Demand

Offset Competitive Advertising

Remind and Reinforce Customers

Reduce Sales Fluctuations

Promote Good Will

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PRIVATE INVESTORS
VENTURE CAPITALISTS
SILENT PARTNERS
LIMITED PARTNERS
CUSTOMERS
SUPPLIERS
L.D.C.'S

FINANCING A BUSINESS

ONESELF

RELATIVES

FRIENDS

BANKS

LOAN COMPANIES

LEASING

LOAN PROPOSAL TABLE OF CONTENTS

PAGE	SUBJECT MATTER
COVER PAGE	LOAN PROPOSAL TO WHICH BANK, FROM WHOM, AND DATE
1	LOAN AMOUNT AND USE OF FUNDS
2	DESCRIPTION OF THE BUSINESS (OR PROPOSED BUSINESS)
3	SPECIFIC USE OF FUNDS
4	CATALOG PAGES, LITERATURE, QUOTATIONS SUPPORTING THE USE OF THE FUNDS, HOW FUNDS WILL BE SPENT
5	PROJECTED INCOME STATEMENT FOR THE BUSINESS COVERING ONE YEAR
6	PROJECTED BALANCE SHEET FOR THE BUSINESS AFTER ONE YEAR
7	SOURCE OF FUNDS TO BE INVESTED IN BUSINESS IN ADDITION TO THE PROPOSED BANK LOAN
8	PERSONAL FINANCIAL STATEMENT OF OWNERS
9	LIST OF CREDIT REFERENCES
10	LIST OF PRESENT AND FAST BUSINESS ASSICIATES
11	PERSONAL BACKGROUND OF APPLICANT
12	HOW AND WHEN LOAN IS TO BE REPAID

FRANK'S SNOW PLOWING AND LAWN CARE
SERVICE EQUIPMENT NEEDS

	COST
TRUCK (4-WHEEL DRIVE) FOR SNOW PLOWING AND HAULING LAWN MOWERS	0
SNOW PLOW ATTACHMENT	1,700.00
SNOW BLOWER	1,000.00
GASOLINE TANK FOR EXTRA GASOLINE	50.00
SNOW SHOVELS (2)	200.00
ICE AX	75.00
LAWN MOWERS (1 RIDING - 1 PUSH)	2,000.00
GRASS BAGGER	100.00
RAKES	50.00
SHOVEL	30.00
CHEMICAL SPRAYER	150.00
HOSES (3)	70.00
PRUNING SHEARS	50.00
	5,500.00

FRANK'S SNOW PLOWING AND LAWN CARE SERVICE
PRO FORMA CASH FLOW STATEMENT
FOR THE TWELVE MONTHS ENDED MARCH 31, 19XX

	APR	MAY	JUN	JUL	AUG	SEP
SOURCE OF CASH:						
SALES	2500	3000	3500	500	500	1000
USE OF CASH:						
COST OF SALES	1175	1350	1575	275	275	450
OPERATING EXPENSES	1443	1555	1668	893	893	1055
TOTAL USES	2618	2905	3243	1168	1168	1505
INCREASE (DECREASE)	(118)	95	257	(668)	(668)	(505)
CUMULATIVE CASH FLOW	(118)	(23)	234	(434)	(1102)	(1607)

	OCT	NOV	DEC	JAN	FEB	MAR
SOURCE OF CASH:						
SALES	1000	6000	6000	12000	6000	6000
USE OF CASH:						
COST OF SALES	450	900	900	1800	900	900
OPERATING EXPENSES	1455	2380	2380	5080	2180	2330
TOTAL USES	1905	3280	3280	6880	3080	3230
INCREASE (DECREASE)	(905)	2720	2720	6670	2920	2770
CUMULATIVE CASH FLOW	(2512)	208	2928	9598	12518	15288

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KNOWING YOUR COMPETITION

LOCATION
SERVICES
BRANDS CARRIED
PRODUCT SELECTION
HOURS
OPEN HOURS
PRICING POLICY
ADVERTISING

KNOWING YOUR MARKET

POPULATION CHARACTERISTICS

CULTURAL
INCOME
VOCATIONAL
AGE
MOBILITY OF POPULATION

MARKET TRENDS

KNOWING YOUR PRODUCT OR SERVICES

ADVANTAGES
BENEFITS
COLORS
FEATURES
PRICE
SIZES
WARRANTY

MAKING YOUR BUSINESS A SUCCESS

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WHAT MAKES A SUCCESSFUL ENTREPRENEUR

DESIRE

DILIGENCE

DETAILS

DISCIPLINE

DETERMINATION

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WHY BUSINESSES FAIL:

UNDER FINANCING

DYING INDUSTRY

LACK OF PRODUCT KNOWLEDGE

NOT KNOWING CUSTOMER NEEDS

POOR MERCHANDISING

MERCHANDISING WRONG PRODUCTS

POOR MANAGEMENT

NOT KNOWING TRUE COSTS

[redacted]

WHY PEOPLE GO INTO BUSINESS

PRACTICAL REASONS

1. TO MAKE A LIVING AND/OR GET RICH.
2. TO PREPARE FOR RETIREMENT. THAT IS "SOMETHING TO DO" IN RETIREMENT, OR TO PROVIDE ADDITIONAL INCOME, OR BOTH.
3. FOR SUPPLEMENTAL INCOME AND EQUITY BUILDING, SUCH AS IN REAL ESTATE.
4. TO USE AS A TAX SHELTER OR BUSINESS WRITE-OFF.
5. TO HAVE SOMETHING TO OCCUPY SPARE TIME. (TO RELIEVE BOREDOM.)
6. TO CREATE A COMMON CAUSE FOR THE WHOLE FAMILY, THEREBY BUILDING TOGETHERNESS.

ABSTRACT-PERSONAL REASONS

1. FOR EMOTIONAL REWARDS; A REALIZATION OF SELF WORTH, SELF-IMAGE, SEEING YOUR CREATIVITY DEVELOP AND EXPAND.
2. TO ESCAPE WORKING FOR SOMEONE ELSE.
3. TO HAVE FLEXIBLE WORKING HOURS -- THE FREEDOM TO DO WHAT YOU PLEASE, WHEN YOU PLEASE.
4. TO STOP HAVING TO TAKE ORDERS.

PROFILE OF A SUCCESSFUL "ENTREPENEUR"

$ DESIRE TO MAKE MONEY

$ THE BIG DREAM

$ SUCCESS ORIENTED

$ HARD WORKING

$ TALENTED

$ RISK TAKING

$ PROUD

SETTING UP YOUR OWN BUSINESS SUCCESSFULLY

- $ WANT TO MAKE MONEY
- $ KNOW HOW TO USE MONEY
- $ KNOW HOW TO USE OTHER PEOPLES MONEY